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Doctorate of Business Administration

Document One: Research Proposal and Plan

Behind the boardroom door. The effectiveness of board of directors in creating shareholder value and the effect of shareholder activism in financial service sector in emerging markets. Corporate Governance in South Africa and Zimbabwe

"Document one submitted in part fulfilment of the requirements of The Nottingham Trent University for the degree of Doctor of Business Administration"

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List of Acronyms and Abbreviations

ABSA	Amalgamated Bank of Southern Africa
BEE	Black Economic Empowerment
FCSM	Federal Commission of Securities Markets
FDI	Foreign Direct Investment
GAAP	Generally Accepted Accounting Practice
HP	Hewlett Packard
HR	Human Resource
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IOD	Institute of Directors
JSE	Johannesburg Stock Exchange
LLSV	LaPorta Lopez-de-Silanes, Shleifer and Vishny
LSE	London Stock Exchange
NASDAQ	National Association of Securities Dealers Automated Quotation
NYSE	New York Stock Exchange
Pg	Page
ROCE	Return on Capital Employed
ROI	Return on Investment
SA	South Africa
SEC	Securities Exchange Commission
SMMEs	Small to Medium Enterprises
US	United States
UK	United Kingdom
ZSE	Zimbabwe Stock Exchange

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1 Background to the Study

Corporate governance is a matter of current public debate, following the controversy surrounding the collapse and financial distress of many markets including China, Hong Kong, Russia, UK and the US firms and the resultant impact on shareholder value. The debate revolves around matters such as agency relationships, disclosure of executive remuneration, irrelevance of audit, board composition, financial control and reporting, directors' fiduciary duties and shareholder activism. Recent reports in the media and markets have cited ineffective governance and poor internal controls as a major cause of corporate failures.

R Naidoo (2002: 1) argued that, "Corporate governance can be an important competitive tool used to maximise a company's performance, increase a company's potential to encourage capital investment and positively influence a country's ability to attract foreign investment. It remains an essential ingredient for nurturing trust and business confidence." The King II (2002) is premised on the philosophy that governance in any context must reflect the value system of the society in which it operates, which means there is no universally applicable corporate governance model than to just base on accountability, responsibility, and transparency.

The King II (2002) incorporates the African value system, which emphasises the collective over the individual good, the principles of mutual interdependence and co-existence, the spirit of humanity, *(ubuntu)* based on the premise that the individual is entitled to respect because of his cordial coexistence with others, a hierarchical political ideology, but one based on an inclusive system of consultation at various levels. Integrating this approach into corporate governance implies a shift in organisational emphasis from a decision making hierarchy to one that is more consultative and consensus based.

Trevor Manuel (2002) the Minister of Finance of SA in his speech argued that, "in the same way as man was charged with the responsibility to act as the guardian of the planet for future generations, directors and managers are tasked with preserving the growing value, not for themselves but for stakeholders of the future." The crisis of American and British corporate responsibility is not "moral cancer" described by J Patterson (2000), former US Secretary, instead, it is something more practical and amenable to treatment argued P Martin *et al* (2002).

Corporate governance has always been integral to business practices, beginning with the creation of corporate structures and the distinction between owners and managers. The *"agency problem"* between owners, managers and directors who represent the owners began to become formalized in economic literature in the 1930s. In more recent years corporate governance has established a greater standalone identity as a field of study and as an area of risk. The wide wake of damage and disenfranchisement caused by recent corporate failures has made corporate governance cot just a concern for financial markets, but an issue of political economy on a global basis.

The crisis reflects a breakdown in the fundamental bargain on which business has been operated since ownership first diverged from management. The agency relationship has worked well in some corporations but failure has become a fad. The concepts that have underpinned the discussion will provide the tool kit to address issues pertaining to corporate governance and competitive advantage in emerging markets in fulfilling the conduct of the research process, research objectives in confirming the conceptual framework.

Regulatory bodies have responded with the passing into law of regulations, such as the Sarbanes-Oxley Act (2002) in the USA, and recommendations that the companies subscribe to best practice and principles detailed in various reports, including the King II (2002) report on corporate governance in South Africa and the combined code of corporate governance in the UK. The reputation and governance of a corporation translate into a “governance premium” R Millson and M Ward (2004) argued, consulting firm McKinney & company (2002) measured and translated into higher price/earnings multiples and other improved metrics Howell and Hibbard (2002). A report by OECD (1999: 22) confirms this, concluding the adherence to practices of good corporate governance will help to improve the confidence of investors, may reduce the cost of capital and may induce more stable sources of capital.

Beneficiaries of this research include:

❖ Investors	❖ Shareholders
❖ General public and potential investors	❖ Auditors
❖ Directors, management and employees	❖ Governments
❖ Bankers and Fund Managers	❖ Legislators
❖ Business Schools	❖ Researchers
❖ Respective Financial Institutions	

Table 1.1

Road Map

This document will map the way forward for the researcher to remain focused on issues that are affecting different stakeholders in the governance process in emerging markets. Documents 2, 3, 4, and 5 will be summarized so that they will fit within the framework of this document. The researcher also expects a lot of resistance from the audit fraternity due to mindset and legal framework in place, which requires that all public companies be audited but does not tell us whether the audit adds shareholder value.

2 Literature Review

The objective of this literature review is to provide an insight into the concepts, theoretical framework and research done to date on the effectiveness of the board of directors in different markets. The review will aim to explore the relevance of this theory, its impact on emerging markets and put into perspective different schools of thought and their limitations.

2.1 Corporate Governance Definitions

Stone, Hurley and Khemani *et al* (1998) defined Corporate Governance as, "the rules and incentives by which the management of a company is directed and controlled to maximize the profitability and long term value of the firm for shareholders while taking into account the interests of other legitimate stakeholders." Johnson and Scholes (1999: 203) define corporate governance as, "concerned with the overall purpose and scope of the organisation to meet the expectations of owners, major stakeholder and add value to different parts of the enterprise." Bob Garratt (2003: 12) says corporate governance is the appropriate board structures, processes and values to cope with the rapidly changing demands of both shareholders and stakeholders in and around their enterprises. There is no agreement to the definition of corporate governance generally. These definitions have same focus on shareholder value, rules, purpose, profitability and interest, which are the issues that need to be addressed in the corporate governance paradox.

Rules versus Principles

In this context, debate and analysis that begins with a prescriptive **"cookie cutter"** view of governance rules and compliance procedures is fraught with peril and runs the risk of either missing the point or confusing the **"forest"** for **"trees."** It is worth drawing from the Business Sector Advisory Group of the OECD in the development, during the late 1990s, of the OECD corporate governance guidelines Johnston (2004: 22) which are as follows:

- **Fairness:** The equality of treatment of all financial stakeholders, and in particular avoiding fraud, insider dealing or any form of expropriation by a company's managers or controlling shareholders
- **Transparency:** To provide clear and equal access of material company information on a regular basis to all investors to allow for informed investment decisions and the ongoing monitoring of the company's activities
- **Accountability:** The existence of legitimate systems of control – particularly to provide shareholders and creditors with an effective structure to enable them to express and enforce their interests and concern over the actions of a company's managers and controlling stakeholders
- **Responsibility:** Adherence to the prevailing laws of the jurisdictions in which the company operates and the management of relationships with key constituencies or stakeholders to promote long-term sustainability and avoid potential disruption.

These principles transcend into individual jurisdictions and have relevance across a range of differing governance environments. The principles can serve as a *"lens"* or a filter through which individual company practices or structures can be interpreted.

Cairnes *et al* (2003) in her book, "Boardrooms That Work" argued that, "what brings boards down is not tangible, visible and measurable. What brings boards and companies down is dysfunction within their social system and failure to observe governance principles. If strong, healthy, social dynamics are what make great boards' great, and then boards need to create a culture in which trust, respect, candor and open constructive dissent are the norms." What affect these norms are issues of agency theory, divided loyalty, ethics, training and financial control and discipline.

2.2 Historical Foundation of Corporate Governance

Clarke (2004: 154) argued that, Berle and Means (1932) were the first to explore the structural and strategic implications of the separation of ownership and control. The separation of ownership and control leaves shareholders with little or no control over the actions of a company's managers Berle and Means, (1932: 8) argued. In response, shareholders attempt to protect their investment by using a variety of control mechanisms, Targett, 2002; Shleifer and Vishny, *et al* (1997); Jensen and Meckling, (1976). They wrote in the preface of *The Modern Corporation and Private Property* that "It was apparent to any thoughtful observer that the American corporation had ceased to be a private business device and had become an institution" Clarke (2004: 155) stated.

This discovery was after the corporate scandals in the US in 1929 called the US Wall Street Crash , which resulted in the first corporate governance legislation called Glass – Steagall Act (1932) (figure 1) culminating into many more up to now the Sarbanes – Oxley Act (2002) after the World Com and Enron collapsed. The first legislation in the UK was the Cadbury Report (1992) (figure 1 of Document 2 page 8) followed by a few others. Corporate governance literature has since grown up to date but these have been reactive to scandals hence not adding value to shareholders.

South Africa developed its own legislation in order to force compliance in corporate organizations by making the requirements of the King 11 Report (2002) compulsory to all organizations. Zimbabwe also adopted the King 11 Report although the country is being affected by poor governance. Since then there has been a lot of research in both countries in different sectors including OCED (2004) in Zimbabwe and Advocate Myburgh (2003*)* in the banking sector in South Africa.

History of corporate governance

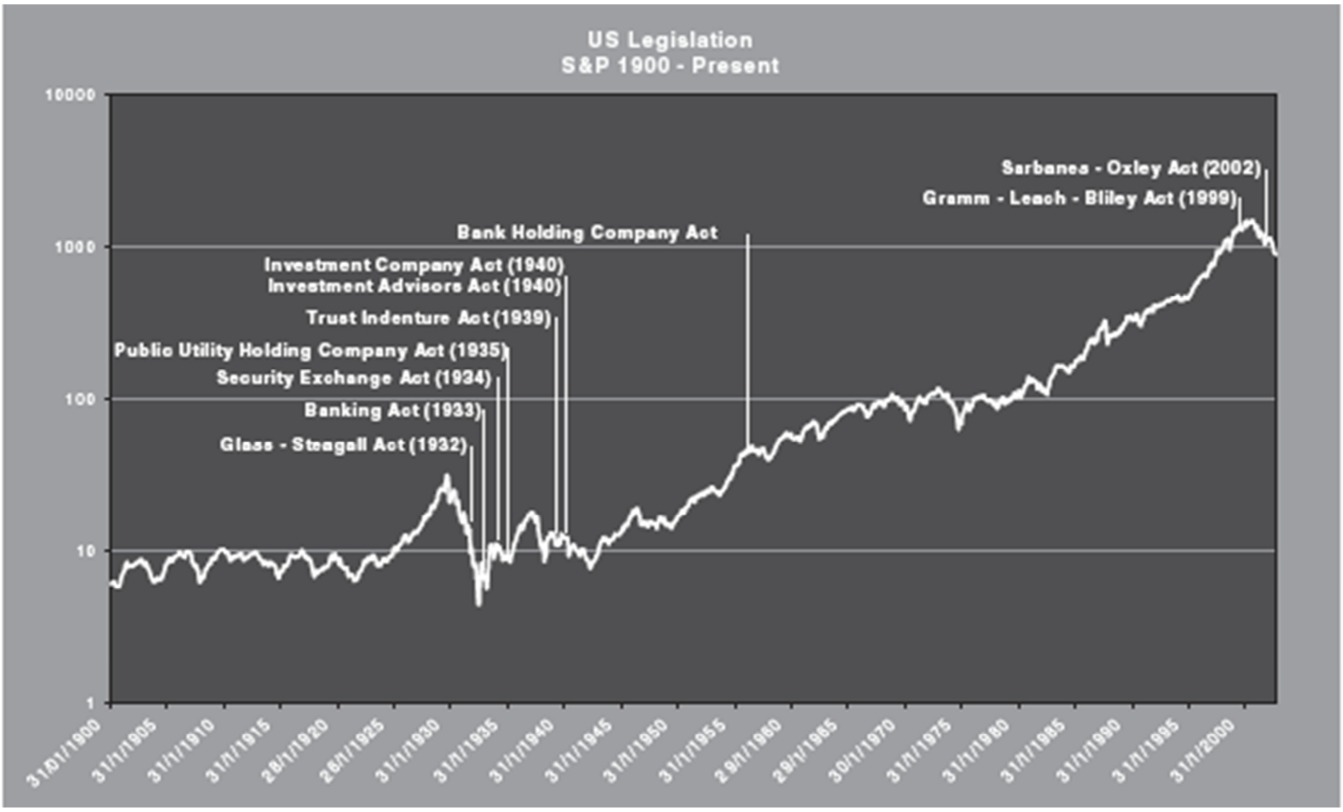

Figure 2.1: *Regulation in the United States: Source: Clarke (2004: 155): Cycles of Crisis and Regulation: The enduring agency and stewardship problems of corporate governance*

2.3 Agency Theory

Jensen and Meckling (1976: 305-360) defined the agency relationship as a situation where an individual (the principal) engages another person (the agent) to perform a service, and to this end delegates some decision-making authority to the agent. Damodaran (2002) www.stern.edu states that managers are capable of putting their own interests above those of bondholders and stakeholders, delaying bad news or providing misleading information to the financial markets, and incurring significant social costs on society, not all of which can be traced back to the firm. The author calls this divided loyalty. The appointment of an agent and the ongoing relationship between agent and principal to meet the seemingly juxtaposed positions of financial performance on the one hand and governance on the other, is thus of critical importance, and one which, according to Jensen and Smith (1995) www.papers.ssrn.com should be governed by a contract to ensure that *inter alia* the interests of the agent are aligned to those of the principal.

Agency theory can be loosely traced back to Spence and Zeckhauser (1971: 119-132) who provided an early analysis of the problems associated with structuring the agent's compensation to align his/her incentives with the interests of the principal. Ross (1973: 134-139) described this as the *"principal's problem"* where the principal delegates a variable level and type of authority to the agent with the aim of generating a certain result. However the outcomes are capricious as they are influenced by factors outside the control of both agent and principal, resulting in agents being paid for their effort, and not for the level of output.

Milson and Ward (2005: 74) agreed with Hendry (2002: 98-114) who stated that people are generally not perfectly honest and truthful, resulting in the *"principal's problem,"* which is rooted in the following assumptions:

I. People in general are self-seeking and opportunistic economic utility maximisers
II. The interests of the principals differ from those of their agents

III. Principals have incomplete knowledge of their agents' actions.

Sapienza, Korsgaard, Goulet and Hoogendam *et al* (2000), argued that, agency problems are exacerbated because the interests of management are in conflict with those of shareholders *"goal conflict"* and because shareholders have less access than management to information on which to make educated decisions regarding the performance of management (information asymmetry). Eisenhardt (1989: 57-74) came up with his fundamental assumptions underlying agency theory where he argued that:

I. There exists goal divergence between the principal and the agent
II. There exists hidden information either before or after the contracting of the agent
III. The principal and agent have different risk preferences, which may lead to different actions being taken.

Within the agent-principal relationship, corporate governance deals with the question of how shareholders incentivise management to effectively align the goals of management and owner, ensure that there is sufficient information flow from agent to principal enabling the proper monitoring of management , and control management to perform in such a manner that they act responsibly. These researchers mentioned here agree on all issues affecting agency theory that is goal conflict, information asymmetry and goal divergence. Agency theory therefore forms the backbone to corporate governance and therefore serves as a foundation for the literature review.

In a management context, moral hazard may take the form of the misappropriation of firm's resources by the agent, the simple avoidance of the tasks required for the meeting of objectives or the pursuit of selfish interests, such as career progression, rather than focusing on the needs of the firm. Short (2000: 203-249) argued that. "the agent's private benefit of control leads to empire building, perks, entrenchment and biased decision making." Hendry (2002: 98-114) added that, the agent may also engage in philanthropic or ethically motivated behaviour with respect to stakeholders, which may not be in the best interests of the shareholder.

2.4 Shareholder Activism

The attitude of investors has changed following the emergence of accounting irregularities and fraud investigations at a number of internationally known organizations. G Dallas (2003: 324) argued that, investors in the UK companies are increasingly more active and vote more frequently in recent years. Research conducted by ProShare (2002) shows that private investors are more active and that company directors and accounting procedures are heavily scrutinized in UK than in emerging markets.

While investor activism is growing in both countries and is becoming more forceful everywhere due to the introduction of the Sarbanes Oxley Act (2002), it is still the case that UK activism tends to be much less grassroots in nature and is effected more behind the scenes than in the US market. The emergence of socially responsible investment is another difference, as an investment trend has been more pronounced in the UK. Myners Report (2001: 5) on institutional investment recommended that pension and investment funds monitor their fund managers' approach to shareholder activism.

In emerging markets, shareholder activism is almost unheard of term, although this is attributable mainly to this market's short history and lack of institutional investors. An interesting, and provocative finding of LLSV (1997) stemming from this research is that, differences in the level of investor protection among countries are explained by differences in origin of their legal systems of which SA and Zimbabwe share same legal system.

2.5 Financial Control and Reporting

Dallas (2003: 5) argued that, "evaluating governance in individual companies must start with an assessment of a company's given architecture." However, good or bad governance ultimately is less a question of architecture and more a question of the people who are governing from within this architecture. This requires an assessment, not only of codes and guidelines, but also how effectively or ineffectively a company's managers, directors and auditors interact to create shareholder value while respecting the interests of the company's stakeholders. The Sarbanes-Oxley Act (2002) legislation in the US, the new listing rule proposals by the NYSE and NASDAQ are prominent among these legal and regulatory initiatives, which were introduced with both urgency and rapidity. They did not look at real problems of corporate failures, which are agency theory, irrelevance of audit, and inconsistence of accounting standards and GAAP (financial control and reporting).

The Accounting Framework (referred to as the conceptual framework in accounting or IAS) can be regarded in general terms as a constitution for financial accounting and reporting. IAS 1 defines the framework as authoritative, a generally practical guideline for recording and measuring of financial information in the annual financial statements. These statements attempt to enhance the usefulness of the information for economic decision making purposes.

The framework has different objectives among which are (IAS 000):

- To assist auditors in forming an opinion as to whether financial statements comply with GAAP and IAS
- To assist preparers of annual financial statements in applying accounting standards and in dealing with topics that have yet to form the subject of an IAS
- To provide interested parties with information about how IASC approaches the formulation of IAS.

Although the framework provided definitive objectives, it lacked depth and created more problems for shareholders. The preparation and presentation of financial statements has different alternatives and assumptions (benchmark and alternative treatment). It is the author's submission that this is the route of causes of corporate failures as this support the agency theory in giving directors other alternatives of reporting, which best suite their interests. Auditing has become an unnecessary cost and irrelevant as its opinion does not add value to the shareholder as the opinion is based on assumptions that best meets the interests of the agent. Empirical evidence has shown that the appointment of auditors is a failure by directors to perform their function as an agent.

Further related to the specification of objectives is what Holmstrom and Kaplan *et al* (2001) refer to as *"multitasking"* which arises because of the complex or multifaceted nature of the principal's objectives. Hendry (2002: 111) states that in these cases, attempts to specify outcomes can be dysfunctional, as an agent will perform in such a manner as to meet specific terms of the incentives, rather than in the general interests of their principal that is the agent is rewarded according to what is specifically measured and will thus perform to those terms exclusively, if not thus when alternative treatment comes into play. White, Sondhi and Fried (2003: 413) argued that, the accounting standards brought the problem of smoothing, which has legalized different alternative treatment of reporting.

2.6 Director Development

David Kock (1982:47) in his article Step-by-Step Coaching - Creating the Life you want, mentioned that, *"Every professional sports person today has a coach. In fact in the sports arena, the higher you go, the more coaching you get. The sports coach's job is to guide, encourage, inspire and to challenge the performer to achieve their personal best performance every time they go out onto the field."* Since the late 1990's coaching has become an important tool in the business world as well, tools for helping high performers achieve their best in work and life. Personal best gives you a first hand experience of a powerful coaching system that has changed the lives and improved the performance of thousands of directors' world over.

The reason why boards or companies fail is through poor coaching of directors. Most of the companies that failed, was due to the board of director's ignorance and divided loyalty for example Maxwell Communications, BCCI, Enron (2001), WorldCom (2001), Peregrine Investments Holdings Ltd (1996) and CA Pacific Finance (1998) and recently Livedoor caused Tokyo Stock Exchange in Japan to close to mention but a few.

2.7 Emerging Markets

The Oxford English dictionary defines emerging markets as financial markets in the early stages of development, as in developing countries or former socialist countries in Africa, Eastern Europe, and Asia. The developing countries showing signs of economic growth.

As in the developed world, emerging markets have seen significant reforms in corporate governance, since the crisis in China, Hong Kong, Japan, Russia, South Africa and Zimbabwe. These reforms range from the introduction of the Novo Mercado in Brazil, PRC law in China, Naresh Chandra Committee in India, Code of Corporate Conduct in Russia under FCSM, Commercial Code in Turkey, King 11 Report and the adoption of the British Common Law system in most of Britain's former colonies in Africa and Asia.

Unlike in Europe and US where ownership is widely dispersed and conflicts are usually associated with the classic agency problem between professional managers, large and diffuse shareholder basis, emerging market's main source of governance conflict come from the relationship between controlling and minority shareholders. The highly concentrated ownership structure and lack of protection of minority shareholders' rights are behind the most relevant governance problems. Block ownership generates different governance concerns in contrast to developed markets.

Ownership structure in particular, the concentration of control in the hands of a few shareholders (mostly governments or family members) has been associated with many of the countries' governance problems. These include poor functioning of boards to the disregard for minority shareholders' rights, rule of law and the low liquidity of stock markets. Most listed companies have one single shareholder and are owner managed. There is a problem of independence, and internal controls are not effective.

Most emerging markets, shareholder activism is almost an unheard of term in the market, although this is attributable mainly to the market's short history and lack of institutional investors. Attributes raised on Table 4.2 below have the same impact they have in developed economies and emerging markets. Agency theory affects all the other attributes as corporate failures in China, Hong Kong, Russia and South Africa can be traced back to divided loyalty, poor internal controls and irrelevance of auditing, which reflects on the failure by the board to execute its fiduciary duties.

Tai (2003: 445) argued that, to transform from the traditional *"rule person"* to the more systematic *"rule of law"* will require not only a good governance system but also a major learning and cultural transformation. Once the Learning Board Model is adapted in setting up the learning boards, this will be the first step in solving the corporate governance paradox in emerging markets.

2.8 Research Objectives

a. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial service sector and to investigate attributes that affect good corporate governance practices. The attributes will be used to assess why investors prefer other portfolios and why they perform differently while operating in the same environment. Companies to be covered are Barclays – ABSA, Standard Bank, First Rand Bank, Old Mutual, Standard Chartered Bank, Commercial Bank of Zimbabwe (CBZ) and National Merchant Bank (NMB).
b. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency
c. To establish if training and accreditation of directors can improve corporate governance practice in the financial sector.

2.9 Research Questions

Drawing from the literature, three strategic research questions were formulated:

a. Strategic Questions

i. What are the corporate governance attributes that must be present in an organization to ensure transparency?

ii. How does corporate governance practice affect investor perception, corporate strategy and performance?

iii. How will training and accreditation of directors solve the agency problem and create shareholder value?

b. Broad Research Questions

- ❖ What are the important corporate governance attributes that influence performance of directors in order to meet shareholder expectations?
- ❖ What are the factors/issues that shareholders take into account when considering the existence and effectiveness of Corporate Governance?
- ❖ What are the main causes of Corporate Governance failures in Emerging Markets as compared to developed markets?
- ❖ How will training and accreditation of directors create value and impact on Corporate Governance in the financial service sector?
- ❖ What is the role of auditors and independent directors in creating shareholder value?

2.10 Summary

The literature dealing with agency theory strongly advocates for a new approach to solving this problem as people are self seeking and there exists goal divergence between the principal and the agent. The legal framework defining a company as a legal persona affects the participation of shareholders in the running of companies in SA and Zimbabwe leaving the Governments with the sole prerogative to decide the direction of the economy.

The weakness of IAS is the major cause of information symmetry as it allows different treatments of financial reporting. Coaching of directors is very important in order to improve corporate governance practice. The critical and analytical review of this literature will be done in document two.

3 The Conceptual Framework

McKinsey and Company (2000) defined corporate governance in individual firms as an abstract combination of "effective boards of directors, broad disclosure, strong rights and equal treatment of shareholders." This combination creates a sustained shareholder value creation (figure 3.1).

3.1 Dashboard for Sustained Value Creation

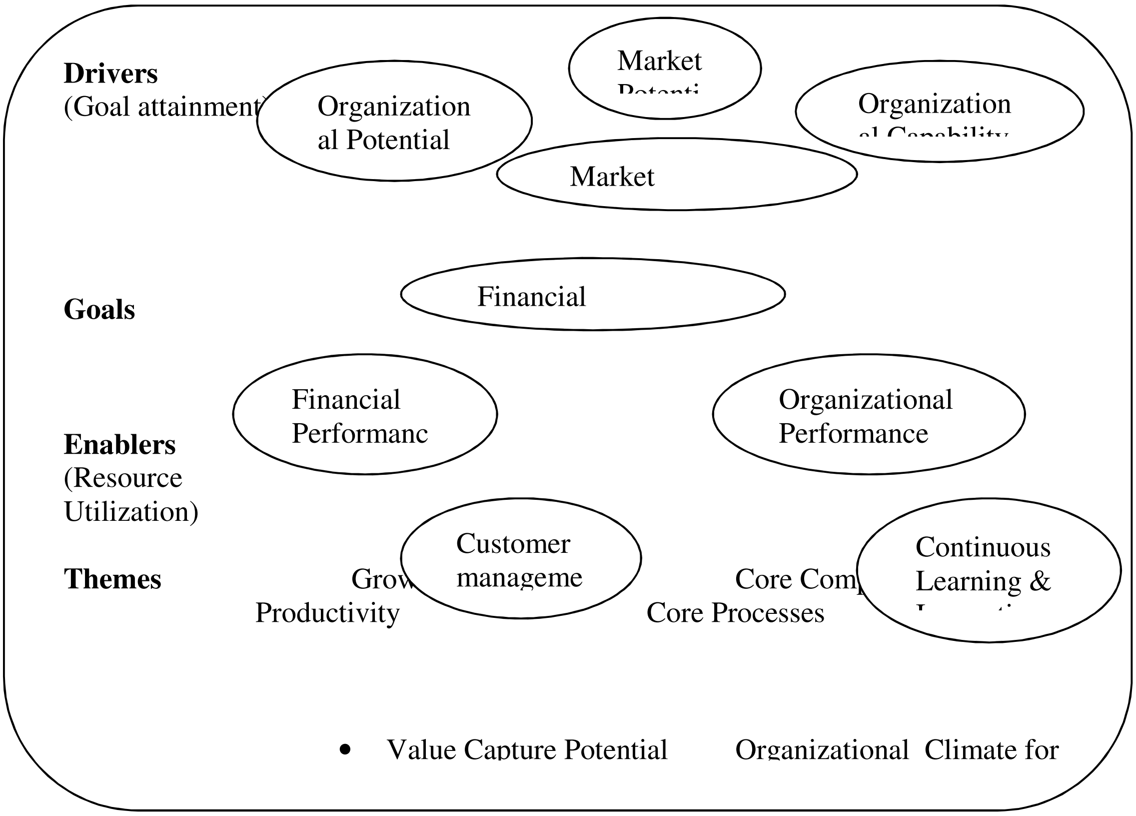

Figure 3.1: Source: ***Garratt (2003: 156) Thin on Top: Why Corporate Governance Matters and How to Measure and Improve Board Performance***

Any flashing light on the board's dashboard will help in triggering a quick check by directors before erosion of the business assets. In order for corporate organizations to achieve sustainability performance leadership can create competitive advantage; reinforce "brand equity," boost profits and shareholder value on the positive, by enhancing a number of key "value drivers." Given that the main dial will concern the resulting added shareholder value, which empirical research has shown that between seven and ten dials are needed to have a reasonable chance of assessing opportunities, risks and costs involved in having an effective board (Figure 3.1) Garratt (2003: 156)? The deep learning for the board is to begin to understand the linkage of these indicators as shown Figure 3.1.

3.2 The Corporate Governance Ecosystem

The researcher has identified some key fundamentals from the above literature review as follows:

- Non-Executive directors are not independent as they are appointed by the major Shareholder to represent their interests.
- Accreditation of directors will professionalize the board hence create independence and improve behaviour.
- Due to poor compensation there is always conflict of interest as human needs change every day, "soft issues" Checkland (1999: 165) argued.
- Owner managed companies cannot comply to corporate governance principles as rights of all stakeholders are not respected.
- Separation of responsibilities between the Chairman and the CEO improves efficiency of the board as there is supervision at all levels Advocate Myburgh (2003) argued.
- Balance of power will improve leadership and communications issues *Clutterbuck & Waine (1986)* argued; hence corporate performance improves through the adaptation of the corporate governance ecosystem.

Corporate Governance Ecosystem

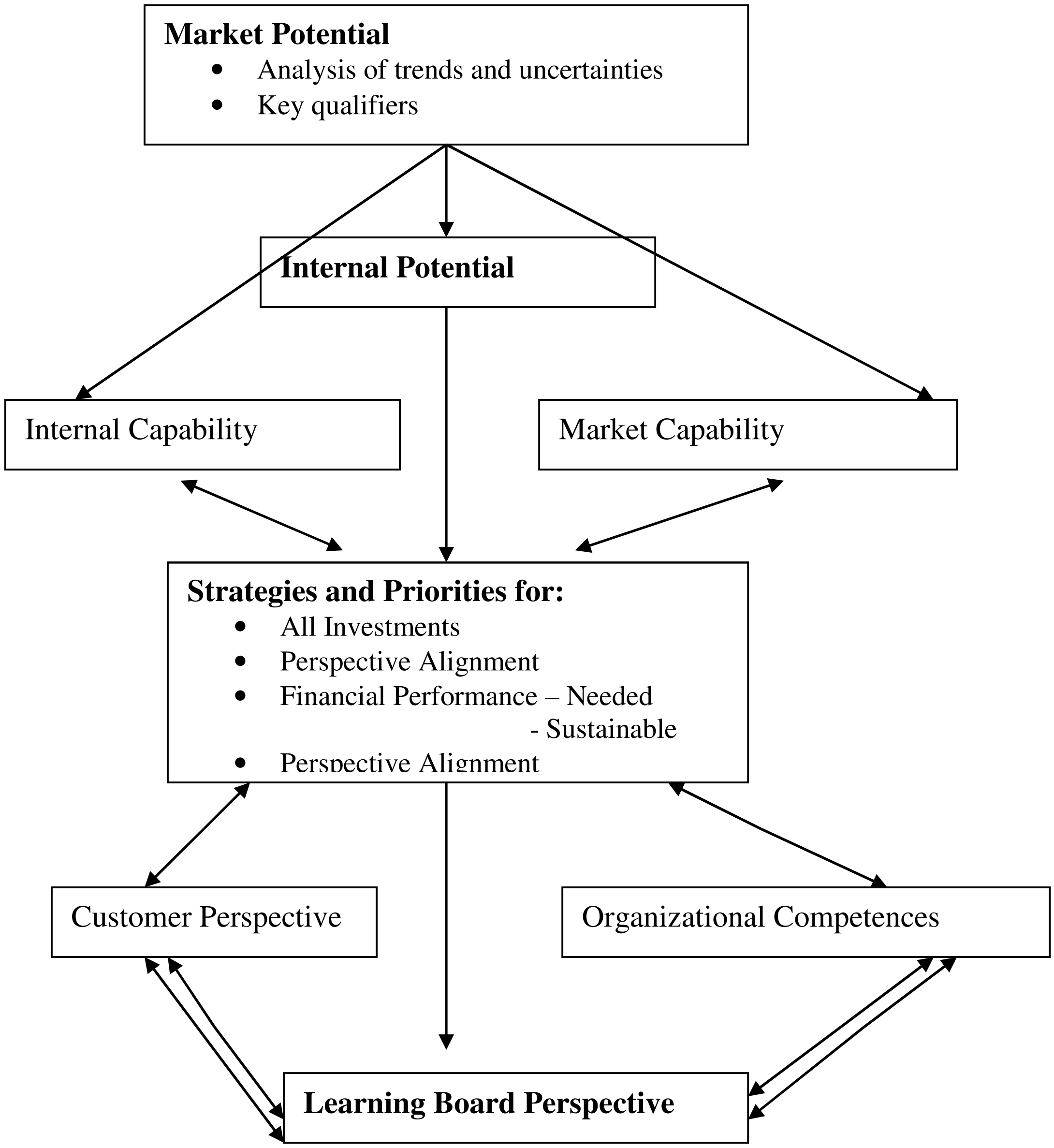

Figure 3.2: Source: ***Garratt (2003: 159) Thin on Top: Why Corporate Governance Matters and How to Measure and Improve Board Performance***

The powerful mixture of understanding the basics and yet seeing the complexities of the business linkages, that allows the board to know the correct levers to pull when there is trouble (Figure 3.2). The dashboard can be assured that the enablers are actually connected "pull" board performance by understanding opportunities and capabilities in financial sector.

The available literature shows that there is no law that regulates how corporate governance issues should be handled, but only reports even in the UK, US, Europe or emerging markets. Failure to develop a standard of corporate governance has greatly affected the performance of companies' worldwide as there is no suitable law to regulate these issues. Agency problem, ineffectiveness of audit, undivided loyalty and single shareholder dominance has become key issues in the failure of corporations in the world. Technology has become the key issue in a globalized economy as shareholders can monitor the performance of their investments on the net and make decision immediately (shareholder activism) but is mostly not accessible in developing countries.

3.3 Summary

The two models, Dashboard for sustained value creation and the Corporate Governance Ecosystem will be used to formulate the conceptual framework together with the literature review. A hybrid of the two will result in a very effect conceptual framework which will assist the board of directors in complying with best practice.

The author will therefore be guided in this study by which highlights the main drivers of corporate governance (Figure 3.2) as improving director independence, structure compensation system, accreditation and continuous improvement will result in a learning organisation Nonaka *et al* (2002). The broad strategic direction set by the owner should provide authority for the directors to begin the change process. This means creating knowledge-based networks which lead to greater levels of organizational learning and flexibility, *Kaplan & Norton (1996) argued*.

4 Research Methods

Various techniques used in the collection of data will be discussed in this section. Although a number of theories are invoked in this chapter, most of them have been referred to in the review of published material. The research process has been designed in such a way that there is an integrated understanding of formulating and implementing code of best practice on corporate governance. The approach and methods used to review the literature, survey designs and procedures will be discussed.

The research strategy used in this research was through surveys based on semi structured, structured interviews, desk research, observation and questionnaires, which provide an opportunity to probe answers and build on responses. The research took a two dimension approach that is the critical realism (Mutch 2004) and ethnographic - phenomenology approach according to *Jankowicz (1995),* Dr Mark, Saunders, Dr Lewis and Dr Thornhill (1997) *et al*. The research was based on the analytical review of the board of directors' performance in all markets with special emphasis on emerging markets (SA and Zimbabwe).

Sources of Data:

Primary Data	Secondary Data
➢ Financial Statements ➢ Business Reports ➢ Government Publications ➢ World Bank Reports ➢ Published Research ➢ Practitioners in different fields	○ Internet ○ Journals ○ Books ○ Newspapers ○ Business Magazines

Table 4.1

The population in this research consisted of practitioners in corporate governance, auditing, finance, investments and commerce that have participated in reviewing companies for the purpose of addressing governance issues. The field study was limited to a convenience sample of participants. Informal exploratory discussions were held with experts comprising five audit partners, five directors of difference organizations, three company secretaries and five investment analysts to obtain a general understanding of governance in emerging markets. These discussions served to supplement the literature review and to identify the most relevant attributes for the purpose of further rating and analysis.

To reduce the complexity of the data for the purpose of analysis, Aaker and Day (1990), Zikmund (2003) advised on using a maximum of five attributes. The listed generic attributes were therefore filtered via interview process according to their relevance to the issues explored in the literature review *vis-à-vis* agency theory, board performance and corporate governance. Following the finalization of these attributes, a pilot study with the same panel of experts was conducted where respondents were required to verify and rate the importance of the attributes in the governance process.

Due to the complex nature of the survey tool, face-to-face interviews were used to determine the attribute rankings as far as possible, but electronic mail combined with telephone and video conference discussion was also used where respondents were geographically remote. Each of the questions given to corporate governance practitioners described hypothetical combinations (constructed using factorial design) of management and governance attributes concerning the current position and future prospects of governance. The highest ranking attributes were identified as follows: (in their specific order)

Attribute	**Explanatory notes/ perspectives explored in literature review**
Governance policies	• Level of commitment by directors and shareholders to, and implementation of, documented policies such as King II and the Sarbanes-Oxley Act
Financial Control	• Regulatory framework: Weaknesses in the preparation of financial statements • Management information and accounts • Accounting standards
Transparency	• Shareholder involvement and activism • Information symmetry: Shareholder access to management information
Director accreditation	• Induction and training of directors • Director knowledge and experience of industry
Equity participation of directors	• Incentive mechanisms: Capital structuring, more specifically the granting of equity and convertible debt (share option schemes)
Audit	• Audit opinion • Auditor knowledge of industry and experience • Timing of audit

Table 4.2

4.1 Phenomenological Approach

Remenyi, Williams, Money and Swartz *et al* (1998) argues that, the phenomenological approach is more holistic, it can *"delve below the surface to understand the essence of what is happening"* and therefore it is the most appropriate method for conducting research into organizations and people. Most researchers favour this approach because of the sub-conscious nature of many factors that constitute human behaviour. Smiricich (1983) advocates building up a picture of the culture of the organization very slowly, using a series of methods such as observation at the onset followed by interviews.

While recognizing that objectivity in research is difficult regardless of whether one opts for positivism or qualitative approach Ott (1989) recommends the use of ethnographic and participant observation studies, as it facilitates the study of organizations and the environment. The disadvantage of using such methodology is that qualitative studies do not replicate well and difficult to apply confidence levels to the findings.

4.2 Critical Realism Approach

This approach accepts neither a constructionist nor an objectivist ontology and instead takes the view that the "social world is reproduced and transformed in daily life Bryman and Bell *et al* (2003). Critical realism defines a different perspective to different situations and allows for comparison. It is the critical realism stance and it is an attempt to bring together realism and nominalism by transcending their differences Fisher (2004: 16) argued.

4.3 Realism/Quantitative Approach

Fisher (2004:16) stated that, realist research is an approach that retains many of the ambitions of positivism but recognises and comes to terms with, the subjective nature of research and the inevitable role of values in it. Quantitative approach is more authoritative as confidence levels can be easily measured. This approach aims to be scientific but makes fewer claims to knowledge that perfectly mirrors the objects of study.

Realism approach will be combined with the epistemological realism to fill the gap as the later believes that universals have a reality that is independent of how people talk about them. It mirrors what is real in the world. This approach is favoured as performance of organizations with strong Corporate Governance can be analysed against perceived less compliant. The incentive for investors to invest is the confidence they get from compliance and experience of directors, which result in level of value creation.

4.4 Summary of Research Methods

The objective of the study was to test the effectiveness of board of directors based on the corporate governance concepts and accreditation of directors through induction and training programmes. The use of both random and systematized sampling method was as a basis of the selection of key informants because of the distribution of directors and market leaders. In order to test the quantitative hypothesis such as whether the accreditation will change the behaviour of directors and improve performance of organizations, there was need to use statistical analysis such as regression model and graphical methods (realism approach). These tools helped to test if there will be a change of behaviour in terms of undivided loyalty and value addition.

5 Matters Arising

The sample consisted of respondents who are generally of senior management level and ranged from managing directors to senior consultants and market analysts. All respondents had more than five years' experience, the average being fifteen years. The academic focus of the respondents was primarily in the financial, accounting, corporate governance, investment and auditing fields.

It is evident from the analysis above, that corporate governance policy, experience and track record of directors was most important to respondents, followed by financial control.

5.1 Governance Policies

Credit rating agencies has been instrumental in the evaluation of a model to rate companies on their corporate governance practices, value creation record and sustainability of value creation. These ratings enable companies to be differentiated on the basis of their governance practices and sustainability of value creation.

Documented governance policies were not considered to be of great importance (group utility of 9%). Although acceptance of and operating in accordance with governance policies is generally advocated in the literature, the formalized documentation of policies and their integration into business planning showed a low utility (0,7%). This shows how management is against best practice, which is caused by conflict of interest. This was reflected in comments suggesting that strict adherence to documented guidelines can impose unnecessary obligations on management. Tacit agreement on governance issues, generated a score of (-0.8%), indicating that respondents had a negative attitude towards a mere implied acceptance of governance guidelines.

Corporate governance debate during the late 1990s shifted more towards the emerging markets, as weak corporate governance was often diagnosed as contributing to the financial crisis such as those that emerged in Asia and Russia. These crises put the spotlight on governance problems in regimes with weak protection of investor rights and helped to stimulate the development of corporate governance guidelines by OECD in the late 1990s. The attempt was to create a framework for corporate governance to have relevance over a wide range of legal jurisdictions, market practices, ownership structures and cultures.

The respondents put little value on the relevance of the existing policies especially the introduction by the US government of the “The Sarbanes-Oxley Act (2002).” This act places personal criminal liability on parties to the preparation and presentation of information, which respondents did not support. Even though auditors used to exonerate themselves from the accuracy of financial statements, put responsibility on directors alone, the act has introduced liability on auditors. At the time of this research a few auditing firms have been charged for misinforming stakeholders and shareholders.

5.2 Director Experience and Financial control

Investors today are particularly concerned with the strength of the management team as Payne (2003) argued that investors are willing to pay a premium on companies which are well managed. The dominant strength of the group utility for this feature (55%) was supported by commentary received from interviewees who emphasised that investors are principally investing in the management team and thus focused on the skills and competence of management as evidenced by previous levels of success and experience.

Although the literature review indicated the importance of management quality (principally in sections dealing with agency theory, goal conflict and director entrenchment) the extent of dominance of this feature amongst respondents was unanticipated. Respondents believed that there is no substitute for experience, hence quality alone will not suffice as a strong preference (utility score of +4) for an experienced board of directors team whose members have together achieved success and have worked in the same industry before. It was clear that investors strongly avoid companies where the management team has little prior experience in the industry or technology, "the ANG asset management (2004) in Zimbabwe."

The most interesting observation was that the respondents do not like governance guidelines; they seem to agree on issues such as accounting standards and auditing standards, as these give them leeway in how they disseminate information to shareholders.

5.3 Transparency

Dallas (2003: 50) argued that investors must focus attention when evaluating any given corporate governance system on certain critical corporate governance concerns. These include:

a. auditing, disclosure and reporting requirements

b. legal requirements with respect to balancing interests among competing stakeholders
c. responsibilities and duties of the corporate board.

Investors ultimately rely on the truthfulness, accuracy and completeness of a company's published financial statements, which is not sufficient. Transparency and disclosure are leading indicators of a company's overall governance standards. Companies with greater level and higher quality of disclosure tend to be more open and investor friendly. The information that companies disclose has been under close scrutiny, particularly with respect to its scope and quality. In emerging markets, generic and superficial information disclosure is the norm even in the US and fails to meet the actual information needs of investors and others.

With the utility of 15%, it is clear that transparency is of concern to investors, who place importance on regular access to director information. Comments received highlighted that director's ability to provide timeous accounting and operational information is also seen as a reflection of the quality of their systems and processes. These findings are supported by the literature on agency theory, which emphasises information symmetry as a requirement for purposes of monitoring and control.

5.4 Training and Continuous Development

Fitzgerald (1936) argued that, the test of a first-rate intelligence is the ability to hold two opposing ideas in the mind at the same time, and still retain the ability to function. Most directors do not have Fitzgerald's "first-class intelligence" most are average human beings, Garratt (2003: 169) argued. Many are scared and confused by idea of having to cope with uncertainty and instead crave certainty.

There are three main causes of suboptimal board decisions, a toxic mixture of ignorance of board processes, abuse of power around the boardroom table and willingness to avoid hard facts Garratt (2003) stated. Effective directors have to have a mindset that allows them to be comfortable handling high levels of uncertainty, while maintaining both their sense of direction and their moral stance. The learning board model (the conceptual framework) has proved effective in bringing directors from a rudimentary understanding of their roles, tasks and duties to becoming a more professional board.

The learning board model Garratt (2003: 179) was constructed by beginning with the two fundamental roles of the board, that is driving the enterprise forward, while keeping it under prudent control and then adding both business timespan (short and long term) and business perspective (internal and external) dimensions. The quadrant formed adds the four key tasks of the board:

- formulating policy and foresight
- strategic thinking
- supervising management
- accountability.

Once the model is adopted under the supervision of the chairman, directors will have successfully completed their rigorous induction, inclusion, training and directoral competence building programmes. These allow them to concentrate now on adding shareholder value in three ways: through the development of the board itself as an effective workgroup, through developing their personal abilities to become competent directors, and through better ensuring that the whole company was based on adding shareholder value.

5.5 Equity Participation

As detailed in the literature review, the granting of equity to directors is a key incentive mechanism and generally happens as a matter of course in private equity investments. What is less defined however is the allocation level. Based on this research, the allotment of 10% equity up front and the option for directors to ratchet this up on the basis of performance reflected a preferred quantum and means of allocation.

Certain respondents commented that it was also important to establish the proportion of the director's total wealth that was invested in the business, the greater the proportion, the greater the incentive to perform. This belief brings in the controversy brought in by share option schemes. Once directors own a significant number of equity in the business, they seem to look at their personal interest than those of the shareholders. The accounting standards have failed to protect the shareholders regarding the accounting treatment of share options, as the capital appreciation of the options is not expensed in the income statement.

Share options have created the principle of divided loyalty as directors are worried about increasing the value of their options at the expense of the shareholders. The concept of smoothing comes into play as directors are measured against the performance of the company and share price. By default conflict of interest is created as directors will do everything in their power to make sure that the share price is increased in order to maximize their wealth affecting the going concern of the business (the Enron case 2002).

5.6 Auditing

White, Sondhi and Fried (2003) defined the role of the auditor as a firm responsible for seeing that the financial statements issued conform to GAAP. The auditor must agree that management's choice of accounting principles is appropriate and any estimates are reasonable. His/her responsibility is to examine on a ***test basis*** the company's accounting and internal control systems, confirms assets, liabilities and generally ***tries*** to ensure that there are no ***material errors*** in the financial statements.

According to IAS and Auditing standards, the audit reports are standard with two main attributes:

- preparation of financial statements is the responsibility of directors and the auditor performs an independent review of the statements
- the audit is conducted using GAAP and auditing standards that require the auditor to provide ***"reasonable assurance"*** that there are no ***material errors*** in the financial statements.

The auditor does not guarantee that the financial statements are free from error or no fraud is present. Almost all respondents agreed that legislation on auditing needs to be changed so that auditors will take responsibility for any misstatements in the financial reporting. Financial reporting structure is done by qualified accountants up to financial director assisted by internal audit and the audit committee. The fourth party in the process is the auditor; all this to me is mere responsibility shifting by the board.

The audit staff who does most of the work are less qualified, even the audit partners lacks the industrial experience and technical knowledge of issues like derivatives and smoothing which resulted in the Enron case (2002) and others. Directors need not to shift their responsibility by engaging third parties as they have the duty to act responsibly and looking after the interests of the shareholders. What makes audit a farlace is that it is done at most twice a year, meaning to say the opportunities that will have been missed by the directors, auditors will not pick them up as a cost to the business.

6 Research Outline

Fisher (2000) highlighted the importance of a research strategy, which has been emphasised by other authors as well. Howard and Sharp (1996) argued that, a research is not a linear process and hence requires flexibility as well as amenable to change. Gill and Johnson (1997) stated that, the research process is not a clear – cut sequence of procedures following a neat pattern, but a messy interaction between the conceptual and empirical world, deduction and induction occurring at the same time. However the authors highlighted the need for a topic selection which includes the literature review, conceptual framework, the study, analysis, interpreting findings and conclusions.

My main assumption is that the major role of the board as a company lever is about leadership, being accountable to shareholders, setting direction, providing value added, selecting the best people, mentor them and walking the talk. Wiley (2004) argued that, in doing so every board faces several dilemmas, the why, what and how are by no means obvious – not least because the shaping influences for corporate governance differ widely and there is no one-fits-all approach, which result in document 2.

6.1 Document 2

The critical literature review will be linked to this proposal as it is the body of knowledge, which will give direction to the new knowledge and contribution to be developed. Smith (1966) argued that, this part of the research is very enjoyable reading and contains many practical lessons for managers. Fisher (2004) stated that the literature review takes a broader perspective, and remove the need to rediscover knowledge that has already been reported.

A critique of the knowledge in existence will be done in order to unpack the value of the literature to this research and how it impact on directors in emerging markets. A conceptual framework will be developed with the support of the knowledge developed from the literature review. This will be the reference point for the study and answering the research questions. The road map of the review will be as follows:

- Rules versus Principles
- Agency Theory
- Shareholder Activism
- Financial Reporting
- Role of Auditing and non – executive directors
- Director Development

6.2 Document 3

Fisher (2004: 126) argued that this part of the research is the primary research phase of the project. It is more practically focused than some of the other chapters because it is about the technical problems of carrying out the research. It is about discovery, which theme leads to the metaphor of corporate governance issues. Fisher (2004: 127) continues to say, explorers travel into the unknown territory. Their mission is to make the unknown known and make the strange familiar to those who read their books of adventure.

Exploration requires an open approach. To discover more the conceptual framework will be used to identify groups of respondents in order to have correct narratives from the interviews, questionnaires, observations and gather qualitative data for inclusion in the project. Participants will be selected from senior management, directors, researchers, lecturers, audit partners, market analysts and investors in different organizations.

6.3 Document 4

In this section, the development and use of questionnaire – based survey that is largely pre-coded, which will be completed by a sample taken from a particular population will be analysed quantitatively and used to illustrate the use of structured techniques. Stages in the process will be defined in setting the sample size to analysing the results of the questionnaire.

According to Churchill (1988) stratified sampling involves dividing the population into mutually exclusive and exhaustive subsets and selecting an independent simple random sample from the subset. The strata that are proposed for this research are geographical area, role, rank and interest. The focus will be to analyse the reasons behind the failure of corporate organizations in emerging markets.

6.4 Document 5

A triangulation model will be used to consolidated the work done in document three and four as I will be looking at knowing why many corporate failures and what can be done to improve the situation. Fisher (2004) introduced the abduction or kidnapping concept at this stage. The researcher will use the same concept to raid the store of knowledge and reading from the literature review to hunt for possible solutions.

Different analysis will be used in driving solutions to the strategic question and the research questions, linking them with the literature review and the conceptual framework. The research findings in document three and four will assist in providing these solutions and contribution to new knowledge. There are some research questions which will not be answered in this project but will be left for the researcher's and others researcher's future use.

In driving conclusions to this project the researcher will be guided by the research questions, literature review, conceptual framework and the research findings of this project and other recent researchers in the same field for example Helga Krapf who has been researching on investor relations in global companies.

7 Conclusions

Investors are primarily concerned with the strength of director's team of any company under review. Respondents indicated an overwhelmingly strong preference for an experienced management team whose members have together achieved success and or who have previously worked in the same industry as a criteria of appointing directors. Conversely, investors strongly avoid companies where management team has little prior experience in the industry or technology.

Continuous development of directors and their accreditation by IOD was one attribute that came out clearly as a factor that enhances shareholder value and compliance to best practice also by Tai (2003). The conceptual framework proves that training and development of directors plays a key role in the strategic thinking of the organization and adding value hence developing a learning organization. The concept of creating a learning organization starts from the top and understanding the organizational dashboard. Investors have a preference to be involved in strategy formulation and have permanent representation on the main board and seats on the subcommittees.

The literature dealing with management incentive mechanisms strongly advocates the use of debt to discipline management and keep it focused on meeting performance metrics. There seems to be consensus between the findings of the literature review and investors in emerging markets on the need for, but not the extent of, leverage imposed. Issues of share options are the merger problem as the capital appreciation cost is not shown in the financial statements giving shareholders a wrong impression of operating cost of the business.

The granting of equity to management is a key incentive mechanism world over to align the goals of agent and principal. While the investors prefer to allocate low levels of equity at an early investment stage, they further incentivise management through an option to increase their equity stake in the business over time following good performance. This is the route of conflict of interest as management apply different accounting methods to show an improvement in performance in order to enhance their wealth (the Enron case 2002).

Transparency is of great concern to all stakeholders and especially to investors who demand regular access to management information. The research findings are well supported in the literature on agency theory, which emphasises information symmetry as a requirement for purposes of monitoring and control. There was consistency across all the respondents that the existing legislation does not protect the shareholders and investors as the company is considered a legal persona separate from the owners.

The Learning Board Model is a requirement for the board to be able to operate above board. This will improve emerge, not only of the board but the whole company and the economy. Once this model is adopted as a tool, corporate governance and ethics will improve, which will result in investor confidence. Ulrich & Becker, Huselid (2001) argued that, once this is in place there will be a shared mindset between directors and stakeholders.

Conclusion drawn from the findings and the literature review shows that audit is irrelevant as it is an unnecessary cost, which does not add value to the shareholder but legitimize the position taken by directors to the detriment of the investor. In appointing auditors, it is a sign that directors have failed to excite their duties to the shareholder of fairness, transparency, accountability, responsibility and value creation.

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Annexure 1

Annexure 1

Interview

Introduction

My name is Cleopas Sanangura, working for ABSA as Consultant: Corporate Asset Finance based in Johannesburg (ABSA head office).

I am currently doing a DBA (Doctorate in Business Administration) and the topic I am researching is as follows: ***Behind the boardroom door. The effectiveness of board of directors in creating shareholder value and the effect of shareholder activism in financial service sector in emerging markets. A case study of Corporate Governance in South Africa and Zimbabwe***
What I am trying to do is to solve the agency theory paradox and how it affects the performance of directors.

You have been selected to participate in this research and assist me in developing new knowledge on director effectiveness in emerging markets in the financial sector. I am interested in your personal observations and opinions. However, I want to make it perfectly clear from the onset that complete confidentiality is guaranteed and that anything you might say in the course of the interviews will remain anonymous. Your contribution may be quoted in the study, but will not be attributed to you if need be. I propose that I will be recording all the interviews, for the sole reason of having an accurate account for transcribing which I intend to do in the next few days. I will wipe off all the tapes as soon as I have transcribed them and in the meantime I will be keeping them in a secure place.

I have some open ended questions that I propose to ask, which I am sending together with this introductory letter. There are issues that you may wish to contribute to my research, which you can submit under general comments. If you require any clarification at any stage, please do not hesitate to call me.

Nottingham Business School

In Association with

Nottingham College of Business, Law and Social Sciences

Doctorate of Business Administration

Document two

Critical literature review and initial conceptual framework

"Document two submitted in part fulfilment of the requirements of The Nottingham Trent University for the degree of Doctorate of Business Administration"

Authored by **Cleopas Sanangura**

Student Number: **YA008250**

September 2006

List of Acronyms and Abbreviations

AGM	Annual General Meeting
BCCI	Bank of Credit and Commerce International
BEE	Black Economic Empowerment
CFROTA	Cash Flow Return on Total Assets
CG	Corporate Governance
CSR	Corporate Social Responsibility
ESAP	Economic Structural Adjustment Programme
DTI	Department of Trade and Industry
FDI	Foreign Direct Investment
GAAP	Generally Accepted Accounting Practice
HKSE	Hong Kong Stock Exchange
ICAEW	Institute of Chartered Accountants of England and Wales
ISA	International Standards on Auditing
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
Jr	Junior
JSE	Johannesburg Stock Exchange
LSE	London Stock Exchange
NED	Non-Executive Directors
PESTI	Political Economic Socio-cultural Technological and International
:	Page
ROCE	Return on Capital Employed
ROI	Return on Investment
SEC	Stock Exchange Commission
SA	South Africa
TSE	Toronto Stock Exchange
UK	United Kingdom

US	United States
USA	United States of America

List of Charts and Tables

Definitions

Affirmative Action: is the action favouring those who often suffer from discrimination

Black Economic Empowerment: is a concept of empowering economically the previously disadvantaged black people

Democratization: is a system of Governance by the whole population through elected representatives with no discrimination

Globalization: is the process of increasing the connectivity and interdependence of the world's markets and businesses

Institutionalization: is the grouping of organizations or markets into associations or working relationships in order to remove trade barriers

Liberalization: is the unilateral, bilateral or multilateral actions to reduce tariffs and/or remove other measures that restrict international trade.

Modern Economy: is a free market economy that includes tradability of other features like stock, derivatives and private property in the management of wealth and resources of a community or country in terms of the production of goods or services

Ubuntu: a Zulu word, literally meaning "humanness." It is a social and spiritual philosophy serving as a framework for African society. Its essential meaning can be conveyed using the Zulu maxim "umuntu ngumuntu ngabantu"—meaning, in essence, "a person is a person through other persons." The practice of ubuntu is fundamentally inclusive, involving respect and concern for one's family and one's neighbors. It also implies respect for one's ancestors, in a deeper spiritual sense.

Table of Contents

1 History and development of corporate governance

1.1 Recapping the topic and research questions

As a result of the literature available the author had to revisit the strategic research questions, which had to be revised as follows:

1. What relationship exists between good corporate governance and corporate performance?
2. How does good corporate governance practice affect how investors behave when making investment decisions and the impact on corporate strategy and performance?
3. Is there such thing as independent directors and auditors?
4. How does independence affect board effectiveness and organizational performance?

Review of the strategic questions was as a result of the author identifying the questions had to be more strategic and focused in addressing the research questions. The research questions remained unchanged as they support the research title. These questions will continue to be reviewed as the research progresses.

1.2 Introduction

Clarke (2004: 1) quoted Berle and Means (1932) that they were the first to explore the structural and strategic implications of the separation of ownership and control. The separation of ownership and control leaves shareholders with little or no control over the actions of a company's managers, Berle and Means, (1932) argued. In response, shareholders attempt to protect their investment by using a variety of control mechanisms, Targett (04 February 2002); Shleifer and Vishny (1997); Jensen and Meckling (1976). They wrote in the preface of *The Modern Corporation and Private Property* that “it was apparent to any thoughtful observer that the American corporation had ceased to be a private business device and had become an institution,” Berle and Means (1932).

Traditional agency theory assumes that ownership of a firm is well diversified among shareholders and that managers of the firm have control over it, so the agency problem is derived from the conflict between shareholders and managers Jense and Meckling, (1976) argued. However, several researchers have criticized the validity of the assumption of well-diversified ownership structure, such as Shleifer and Vishny (1986), Morck et al. (1988), Claessens et al. (2000) and La Porta et al (1999, 2000). Of these, La Porta et al. (1998) examined the largest firms in 27 high-income economy identities and found that except for the economies with solid protection for the shareholders, few firms were widely held by general shareholders, with most typically being held by controlling families. The dispersal or equity ownership of companies raises a series of agency dilemmas highlighted by Blair (1995 : 32-33).

It is in the historical effort to resolve these and related agency dilemmas that the principles and mechanisms of corporate governance have evolve. In the market-based outsider systems of the US, UK, and the effort to constrain the behaviour of managers by shareholders led to a narrow focus on financial performance indicators, short-term horizons and a *relative neglect of other stakeholders* in the enterprise. In contrast, *the insider system pre-dates Berle and Means (1932)* and involves controlling shareholders, with companies in close relationships with banks rather than equity markets. In Europe and Asia, this has traditionally encouraged a wider conception of the purpose of the company, with longer investment horizons and an orientation towards the interest of a broader group of stakeholders Clarke, (1998 : 182-5). However, periodically serious problems have occurred in the governance systems of European and Asian countries also, as the long standing malaise in the Japanese economy illustrates.

1.3 Corporate governance defined

Stone, Hurley and Khemani (1998) and Cheung (2002) referred corporate governance as, *"the rules and incentives by which the management of a company is directed and controlled to maximize the profitability and long-term value of the firm for shareholders while taking into account the interests of other legitimate stakeholders."* Agrawal and Knoeber (1996) and Dallas et al (2003) defined corporate governance as *"the interaction of a company's management, its board and shareholders to direct and control the firm and to ensure that all financial stakeholders (shareholders, employees and creditors) receive their fair share of the company's earnings and assets."* McKinsey and Company (2000) defined corporate governance as *"an abstract combination of "effective boards of directors, broad disclosure, strong rights and equal treatment of shareholders" document 1 : 17."*

The African perspective by King (1994) defines corporate governance as *"concerned with holding the balance between economic, social goals and between individual and communal goals …."* King's definition ignores the rights of shareholders and other stakeholders like employees. The aim of defining corporate governance should be to align as nearly as possible the interests of individuals, corporations, society, balance economic and social goals. Whichever of these views is correct, and it will no doubt remain an open debate, the author is entitled as a researcher to choose the focus of his research and in this project the focus will be on corporate governance as a means of protecting the interests of different stakeholders.

Companies are required by law to meet minimum legal requirements in their operation, hence directors have minimum obligation to other stakeholders, SA Companies Act 61 of (1973). Ayogu (2001) developed a definition that matches African perspectives of "ubuntu" (document 1 : 1) as is concerned with the design of institutions that induce management in their actions of stewardship, to take into account the *welfare of different stakeholders*. **Although there is no single definition for corporate governance, there is congruence on creating shareholder value, board effectiveness and having proper structures that supports the stewardship theory.** The author will however pursue all these definitions in line with Ayogu's (2001) thinking, which meets the notion of Ubuntu.

1.4 Summary

The author decided to call Berle and Means, the father of corporate governance, as they have made significant contribution to this field. The definitions highlighted above supports the institutionalization of the company, which has resulted in the agency theory problem. Development of corporate governance in US and UK has had positive contribution to SA and Zimbabwe governance systems (skills transfer). The corporate governance definitions discussed here will be used in filling the gap in the research of this field in Southern Africa. King, Ayogu (2001) and Myburgh's effort will be complimented in developing concepts that will assist in solving corporate governance problems in the countries under review. Definitions discussed above had both positive and negative impact on how companies have been managed since 1932 to date. The negative being the Wall Street Crash 1929, The Great Depression in UK (1991), Asia Crisis and the positive being the reduction in corporate scandals and the development of literature and legislation to regulate operations of corporates as discussed in Chapter 2. The researcher will be guided by these definitions in answering the research questions and developing the Conceptual Framework.

2 Evolution of corporate governance

As a result of globalization, the Wall Street crash (1929), UK scandals (1987-1991) and the Asian crisis (1998), South Africans and Zimbabweans were negatively affected as poor corporate performance resulted in banks failing. The Wall Street Crash and the Great Depression resulted in the re-colonization of Africa and war as European countries were fighting for resources like gold and diamonds in Africa. The Anglo-Boer war had long term effects to the development of Southern Africa as resources were depleted. After the second Anglo-Boer War, the British government did not give up its ambition for unifying South Africa under Imperial British rule. The two Boer republics of the Orange Free State and the South African Republic or Transvaal still maintained their desire for independence, (www.sahistory.co.za). The Boer republics were a stumbling block for the British Empire until the British were defeated. These wars were followed by the Second World War and all these had negative impact on corporate performance and governance system of African countries as US and Britain had to source for resources in order to turnaround their economic crisis.

Governments had to bale out subsidiaries in respective countries in order to avoid total collapse of the institutions and economy at large. BCCI and Hoechst were financed by the government as they were the biggest institutions in Zimbabwe and SA. Their collapse would have resulted in the collapse of the countries. The impact to the economy of a bank closing is very significant and can paralyze the whole economy for example recession in South Africa in the late 1990s after the Anglo-Boer War. The legislation that followed the scandals impacted on the countries under review as companies affected in the scandals were operating in SA and Zimbabwe for example BCCI, which resulted in the governments adopting new reforms like ESAP in order to turnaround the economies.

2.1 US Wall Street crash 1929

The US corporate governance system is generally regarded as the most robust: it is related to the largest economy, the largest concentration of leading corporations, the deepest and most fluid capital markets, a dispersed shareholding base, and well-established laws and regulatory institutions, Clarke (2004 : 154) and Millstein (2001 : 10) argued. One of the strengths of the US system lies in its encouragement of self-regulations by corporate entities, supported by law around basic principles, but not mandated point by point. The US system enables people who know the corporation most intimately to effect its operation, so that the corporation can be positioned to achieve the highest level of efficiency and competitiveness it is capable of within its economic environment stated Millstein, (2001 : 10).

However, though the US system may have partly evolved out of the pragmatic development of case law in response to changing circumstances, this is a subtext compared to the major legislative interventions that have resulted at times of crisis (Figure 2.1) document 1 pp 7 as Millstein (2001 : 10) notes: "*This minimally intrusive system also leaves room for abuse. The US system has had to make many adjustments to counter mistakes generated by too much discretion. Our regulatory system has evolved over time, in reaction to outright abuse. At various points in our corporate history, fraud, larceny and mismanagement have not been all that unusual – ultimately they led to law and regulation,"* Barnes (2004 : 91-93) gave the same argument.

Expanding confidence in the American economy of the 1920s, with rising output, sustained growth and an increase in personal wealth, led to the speculative euphoria of 1928 and 1929, centered on New York that led to the Wall Street crash. Figure 2.1 (document 1) : 7 shows the failure of the US (legal framework) governance system since 1930 as all the laws were passed as a reaction to a crisis, the same as in the UK (Chart 2.2.1) below. The market collapse revealed market manipulation, insider trading, general mismanagement and a reckless trampling of shareholder rights, with the loss of 86 per cent of market capitalization between 1929 and 1933 Soros, (1998) : 145 argued.

The long recession that followed provoked deep misgivings about the nature of the economic system unleashed upon an apparently defenceless public. Congress enacted the Securities Act 1933 and the Securities and Exchange Act 1934 to address some of these misgivings, primarily through the regulation of corporate financial disclosure to improve transparency. The laws and rules that ensued imposed liability on officers and directors for fraud and abuse, established the SEC to enforce these measures, and to regulate solicitation of shareholder proxies by public corporations. "Congress opted for honest and fair disclosure as the primary tool for securities regulation, obviating the need for more detailed substantive regulation" Millstein (2001 : 11). These efforts have yet to yield the required results of best practice in US and the rest of the world.

2.2 UK Robert Maxwell MMC, BCCI, Polly Peck 1990/91

The UK had some similar experiences to the US in terms of the post-war recovery and long period of complacency regarding corporate governance, though economic growth was more stumbling, and executives had less to be self-satisfied about argued Clarke (2004 : 156). The financial exuberance that arrived in the 1980s was halted in the market crash of 1987, and later high interest rates precipitated a series of high profile corporate collapses in 1991, including Robert Maxwell's MMC, Polly Peck and the BCCI, whose primary commercial activity turned out to be money laundering.

Public confidence and trust in the efficiency and reliability of the governing structures of industry was severely shaken in that each of these corporations received healthy audit reports shortly prior to their collapse Clarke and Bostock, (1994). Consequent concerns included the standards of the audit and accountancy professions Cadbury report (1992); the lack of accountability disclosure and transparency of boards to shareholders Monks and Minow, (1991); concerns over the adequacy of board structures and processes Lorsch and MacIver, (1989); the quality of directoral competencies; the apparent lack of corporate social responsibility; the destabilizing impact of the growth of merger and acquisition activities Pound (1992 : 83) the short-tem basis of corporate performance Gregg (1993 : 2) the spate of business fraud; and the evident weakness of corporate self-regulation.

These problems were exacerbated by the development of more complex corporate structures and, as a result, modern company law was unable to keep pace with modern corporate reality Hopt, (1984). As one of the greatest proponents of active corporate governance, Sir Adrian Cadbury's report published in (1992) was to have considerable influence not just in the UK, but in many other countries around the world that adopted similar corporate governance codes of practice with the inspiration of Cadbury, and in similar circumstances.

Further UK reforms of corporate governance followed the Cadbury code, with the Greenbury Report (1995) proposing guidelines for director remuneration; the Hampel Report (1998) focusing on disclosure and best practice; the Combined Code (1998) outlining a mandatory disclosure framework; and the Turnbull Report (1999) offering advice on compliance with mandatory disclosure. This was followed by a three year inquiry Modern Company Law Review, which for the first time addressed the fundamentals of the reform of company law, which in the UK was particularly antiquated. However, any sense that universally improved standards of corporate governance were gradually bringing greater stability and security in international equity investments was abruptly dispelled by the looming Asian financial crisis.

Chart 2.2.1: Adapted from Clarke (2004): Regulations in the UK

2.2.1 Asian financial crisis 1997/98

The ink was barely dry on a series of high profile reports by the World Bank (1993, 1996) celebrating the unique combination of high investment and sustained high growth rates of the tiger economies of East Asia as an inspiration to the other developing economies, when the Asian financial crisis broke. Erupting in June 1997 in Thailand, it quickly swept through the Philippines, Indonesia, Malaysia, Singapore, South Korea, and South Africa impacting upon Taiwan and Hong Kong. Meanwhile Japan was experiencing a deepening crisis in its financial institutions. As Michael Camdessus, *South China Morning Post, (*2 October 1998) the Managing Director of the International Monetary Fund confessed, *"A universe of specialists did not see the Asian crisis come. We did not see the violence of the contagion. It was so strong, quick and struck in the most unconnected places".*

Corporate governance came to the centre of the international development agenda following the Asian crisis in the mid to late 1990s above when the Hong Kong Stock Exchange shrank by 24%. Boycko *et al* (1994) researched and found out that, regional securities markets lost from 15% to 79% in US dollar terms.

There was much evidence of a profound inclination towards reform in the countries concerned, but should this dissipate as the East Asian economies move towards recovery, there was an array of external agencies with an interest in ensuring the process of reform is adhered to. The IMF, World Bank and Asian Development Bank all have launched significant initiatives to encourage and facilitate the reform process. International investors were unlikely to be sympathetic towards countries and companies that were not significantly improving their corporate governance standards. However, the question arises concerning the appearance and substance of reform, and the prospect of regulatory capture by business interests that never identified with reform process.

2.3 African governance system

The demise of apartheid and advent of democratization in South Africa coincided with a number of critical global developments, namely ascendancy of globalization, land inversion in Zimbabwe, economic liberalization based on market fundamentalism, emergence of the third wave of democratization encompassing countries of the former socialist bloc and spreading to other developing countries in Africa, Asia and Latin America. It coincided too, with increasing interest (propelled by the revival of institutional analysis) in the lessons to be learned from East Asia experience with respect to the role of the state in promoting development, Amsden (1989), Evan (1993), Jang and Kim (2001) and Wade *et al* (1990), which is historical information.

Mhone and Edigheji (2003) pp 1- 15 argued that Southern African countries are confronted with the major challenges of attempting to promote democratization, good governance and sustainable human development in the context of an increasingly integrated global order driven by market fundamentalism. They were supported by Henderson (2006), Cheung (2004) and Myburgh 2003) who argued that democratization should be done in the context of “ubuntu” in order to promote good governance, which should result in employees buying-in to corporate ethics. The author however disagrees with this argument as employees are only a stakeholder in the corporate governance mapping without any representation at board level. They do not influence the out come of compliance to best practice but directors do. The challenges are that there are no sufficient skills to implement and audit corporate governance implementation programmes.

As a result of these problems Myburgh's report (2003) list some of the banks that failed as a result of failing to comply with corporate governance code of best practice, (Appendix 1) although subject of corporate governance in developing economies has recently received a lot of attention in the literature Oman (2001), Goswami (2001), Lin (2001), Malherbe and Segal (2001). Corporate governance in banks has been almost ignored by researchers Caprio and Levine (2002). At the time of writing this document there is very little research done on corporate governance in Southern Africa and especially in the financial sector. It is clear that corporate governance in Southern Africa is under-researched refer also 3.3 below.

Corporate governance of banks in developing countries is important as they are engines of economic growth, source of finance for majority of firms, provides means of payment system and the liberalization of banks argued King and Levine (1993a/b), Levine (1997). Arun and Turner (2004) pp 371-373 managers of banks in these economies have obtained greater freedom in how they run banks especially in South Africa leading to bank failures Appendix 1. Africa has yet to witness the level of corporate governance failure experienced elsewhere argued Okeahalam (2004), but what he failed to identify is the stage of capitalization of companies in Africa. The author disagrees with Okeahalam as the failures in Africa has been significant compared to the respective economies (market capitalization) for example Masterbond, Nedcor (1990s) in SA, Appendix 1, hence considered as a high risk continent by international investors to invest in, Theobald (2001).

The Louw (2003), KPMG (2003) report highlighted that there was a general increase in fraud and corruption in Africa, 61% of the respondents confirmed this. The reason for this increase in fraud is as a result of deregulations, which resulted in appointment of unqualified directors (cronyism and easy wealth, Klapper and Love (2002)) who are poor and inexperienced. Countries being researched are however affected by international companies that have dual listing, which has resulted in companies complying with international codes of best practice, Vermaulen (2001 : 73). Scandals in the countries under review in the late 1990s resulted in professionals in SA volunteering to assist by developing a document which was to outline a code of best practices as a first attempt towards developing best practice document, which was named King 1 Report (1994). Corporate failures continued in SA and Zimbabwe resulting in the King 11 Report (2002), which was adopted by both countries as a requirement for all public companies.

2.4.1 Evaluation of corporate governance codes in South Africa and Zimbabwe

South African and Zimbabwean corporate governance is administered by the King 11 (2002) Report, Myburgh (2003) Report and manual of best practice in Zimbabwe. It is a requirement that every public and listed company is required to comply with these codes. These codes define directors' job descriptions which state the obvious with no legal enforcement.

The King 11 Report did not address the issues of corporate governance as it lack depth and command to enforce legislation. It did not address issues like independence, role of auditors and non – executive directors. This resulted in every company insetting a sub heading “Corporate Governance,” which showed that the companies were complying with the King 11 Report which does not have substance but form...

The recent failure of banks in Zimbabwe has been as a result of failure by the legal system, or rule of law, abusive insider and related party transactions (Appendix 1). The operations of some sectors of the economy are considered as black boxes for example how Ministry of defence, Presidency and other companies owned by the state do not comply with the King 11 and the international best practice. Failure to observe property rights and self enrichment has resulted in the current crisis. Political allegiance is a major issue that has affected corporate governance systems, which resulted in the Zimbabwean government closing some banks like Trust Bank, Century Bank, Barbican Bank and The Daily Newspaper (Appendix 1). Appendix 1 gives details and similarities of the reasons for banks' failure in Zimbabwe and South Africa. The main reason for failure of banks, in both countries has been failure of external and internal CG system, non-core speculative activities as well as fraud.

Evidence by Armstrong (2003), Millson and Ward (2004), Turnbull (2006) and Barnes (2004) has shown that complying with the King 11 Report (2002) and Myburgh (2003) Report does not mean complying with the codes of best practice. This document has been used as a public relations document to attract investment in South Africa and Zimbabwe according to Barnes (2003). The development of these codes is an indication of the failure of the legal framework of the two countries, which has resulted in bank failures. The idea of the volunteers (authors) of these codes was to create awareness and promote highest standards of corporate governance, but lacked the legal framework support.

Banks have abused the codes by appointing executive directors at holding companies as independent or non executive directors in subsidiary companies. Independence is not properly defined, which has resulted in conflict of interest. The introduction of BEE and affirmative action has worsened organizational structures as board members who lack knowledge and experience of the business but after quick accumulation of wealth being appointed and influence setting of policies by the governments. Majority of them do not even attend board meetings as reflected in document 3. Ineffective governance has often formed the backdrop to corporate failure with the resultant negative impact on shareholders argued Millson and Ward (2004 : 73). Therefore the non existence of the legal framework which governs corporate governance issues in both countries is a challenge for researchers and academia.

2.4 Critical analysis of the literature

The evolution of corporate governance in USA, UK and Asia had a positive impact (transfer of knowledge) on South Africa and Zimbabwe as these countries followed the same trend of events. Most corporates in SA and Zimbabwe have dual listings JSE, LSE, NYSE, HKSE and

TSE affecting how best practice issues are addressed. The collapse of most of the US (The Wall Street Crash 1929) and UK (The Great Depression 1987-1991) companies had negative impact to SA and Zimbabwe as they had subsidiaries operating in these countries for example BCCI affecting the liquidity of these countries. The difference with the US corporate governance is that, when there is a corporate failure it is considered as the level of risk that the shareholders had taken, while in Southern Africa it is an economic crime the researcher has observed.

Concerned with the direction and control of corporations grew in both developed and developing countries in the wake of privatization, affirmative action, ESAP and liberalization in the financial markets. A number of high profile corporate failures in 2001-2002 Appendix 1 have brought a renewed focus on the importance of good corporate governance, bringing the topic to a broader audience. What has emerged through international debate on the topic is that the underlying principles of fairness, transparency, accountability and responsibility reflect minimum standards to provide legitimacy to the corporation, reduce vulnerability to financial crisis, broaden and deepen access to capital.

Financial liberalization and large current account deficits financed by short-term foreign loans, left these economies open to large international movements of capital. Collapsing currencies, equity and property markets in East Asia in 1997/98 exposed underlying vulnerabilities both in governance structures and values in Southern Africa. However, an international confidence crisis was fuelled by a growing realization of the structural weaknesses of economies often governed by crony capitalism, opaque accounting, auditing systems and too close relations between business and the state argued Clarke (2004 : 153). The question remains how could all this have happened in economies that were formerly celebrated for their robustness and efficiency? The question remains, where were the boards and auditors? The author would like to find out in document 3 and 4.

All these developments resulted in the first attempt by the King committee to develop a document called "The King 1 (1994) Report followed by The King 11 Report, Myburgh Report and the Best Practice document in Zimbabwe. King (2002) argued that the King 2 Report was to raise awareness as the CG revolution, which had swept the world, had arrived in South Africa (www.btimes.co.za). Although these documents failed to address real issues affecting the governance of companies is Southern Africa, they were assisted by international best practice document, in bringing awareness to Southern Africa. These documents improved the perception of investors as the countries under review were seen to be making an effort to comply with CG best practice.

In a modern economy, companies are disciplined by a combination of internal and external controls. Internally, the company directors' duty is to ensure adequate financial control is exercised, and reinforced by "independent audit" of the annual accounts. Externally, there is a "legal framework of corporate law," policed by regulatory authorities and the tax authorities. Finally, there is the capital market that exercises a commercial discipline upon companies. Though this institutional structure was broadly in place in the East Asian economies, the problem is that this did not work properly argued Clarke (2004 : 154). Given the systematic nature of the problems of corporate governance in East Asia, only a fundamental programme of reform on institutions and practices, conducted in an energetic and committed manner over a considerable period of time, is likely to produce results. Ryan (2004) (www.btimes.co.za) also argued that, it is evident that CG is increasingly regarded as a management tool rather than a burden.

2.5 Summary

As a result of the new reform policies, new shareholders or ESAP, partners lack the experience and only want to be board members with no contribution but political will. They do not attend board meetings and neither do they have time to analyze companies' performance as reflected in document 3. The crisis in Zimbabwe at the time of this research is as a result of greedy, legal framework failure and lack of knowledge, which may affect South Africa very soon. The new investors as a result of lack of knowledge do not seek to acquire experience and knowledge so that they can be involved in the strategy formulation of the organizations they own, which will be reflected in document 3. Garratt (2003) coined that shareholders and board members should develop a concept of a learning board so that every member of the organization participate and strive to achieve success.

Accountability, fairness, responsibility and transparency (document 1 pp 5 and Cadbury Report 1992) are of great concern for an effective board. Willson and Ward (2004 : 81) argued that for this to happen, board members need to be granted equity so that they will be aligned to the goals of the shareholders and reduce the level of information asymmetry. The challenge that faces South African enterprises is to translate the commitment of best practice and high standards of ethics into organizational practice. It is on this score that most codes of corporate governance in Southern Africa fall short as they provide very little guidance on how ethics should be institutionalized in enterprises argued Rossouw (2005 : 105), Crane and Matten (2004 : 37-219).

The experience in US, UK and Asia did not only bring to Africa negative effects of corporate failure as well are positive factors like skills transfer. Southern Africa benefited from the developments in legal framework and implementation of the codes of best practice. This has resulted in significant growth in South Africa and Zimbabwe until seven years ago. As a result of political leadership is Zimbabwe, economic growth has been affected, hence affecting corporate governance structures (Appendix 1)

3 Corporate performance

3.1 Defining the concept

Helmer (1996 : 2) stated that boards have a definite responsibility and key role to play in organizational effectiveness, hence should endeavor to acquire skills and strategic orientation driven by the dynamics of economic, technological, political and social change (PESTI) which are global in magnitude Chart 3.1.1. Van Der Walt and Ingley (2001) contributed that, if organizations are to perform according to shareholder expectations in an environment of increasing strategic change and uncertainty, boards have a governance responsibility to ensure they identify and build or acquire and maintain necessary capabilities to their organizations towards those goals and ambitions Chart 3.1.3. The author was impressed by Pawson and Tilley's (2004 : 1-220) work, which had an impact in developing the conceptual framework assisted by Garratt (2003 : 17 and 19) document one, Chart 1.3.2 document two and Kaplan and Norton (1996), Chart 3.1.1. Their argument matches the researcher's argument of enhancing shareholder value by making sure that all positive mechanisms on the Board Effectiveness Model are triggered, hence creating shareholder value.

Linking corporate governance to shareholder value

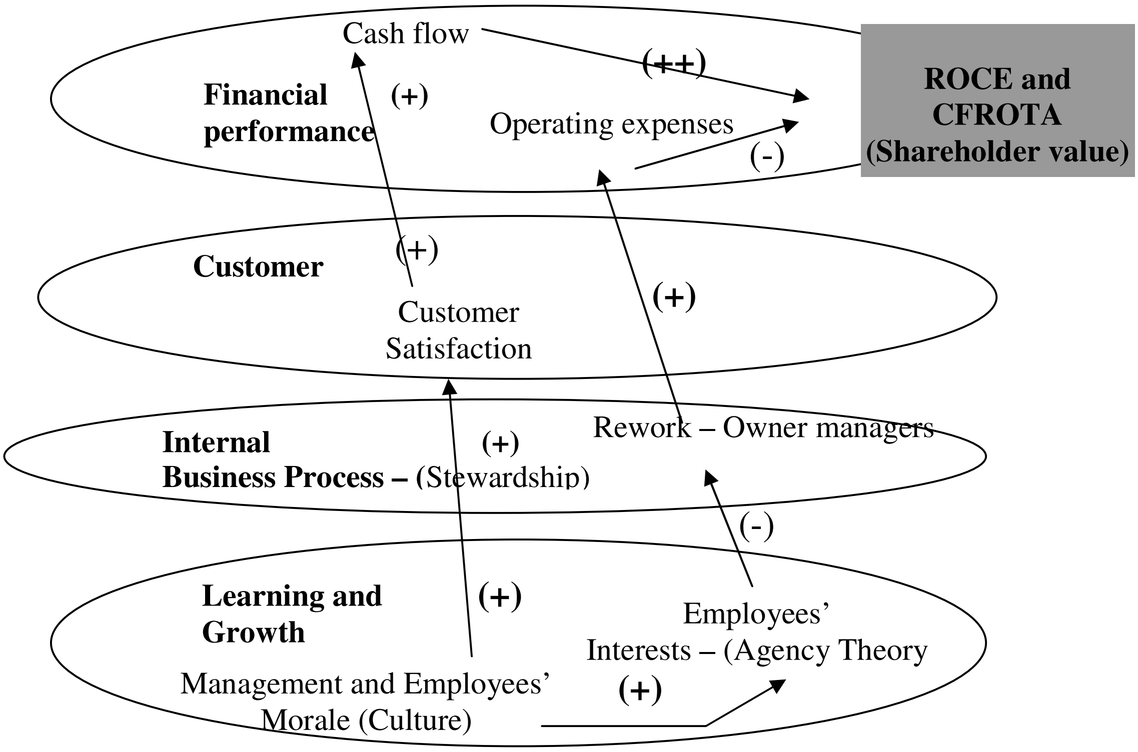

Chart 3.1.1: Value generation: *Adapted from Kaplan & Norton (1996)*

Kaplan and Norton (1996) (Chart 3.1.1) coined the model that link corporate governance to shareholder value above, arguing that cash is the best measure of value creation. This argument was supported by Garratt (2003) when he came up with a corporate governance policy review cycle (Chart 3.1.2). The author agrees with the above researchers in their value creation models as cash ratios are not easily manipulated and as the cycle by Garratt (2003) is observed, then there is compliance to best practice. These models were useful in developing the author's mindset in looking for mechanisms that add shareholder value after being triggered.

Garratt (2003 : 156) developed a dashboard for sustained value creation, where the enablers trigger the drivers in order to create value and market potential. Garratt (2003), : 159 developed the Corporate Governance Ecosystem, which links the learning board and the customer satisfaction levels. The argument that Garratt (2003) came up with was to make sure that the cycle is complete in order to meet corporate governance best practice goals.

Corporate Governance Culture Cycle

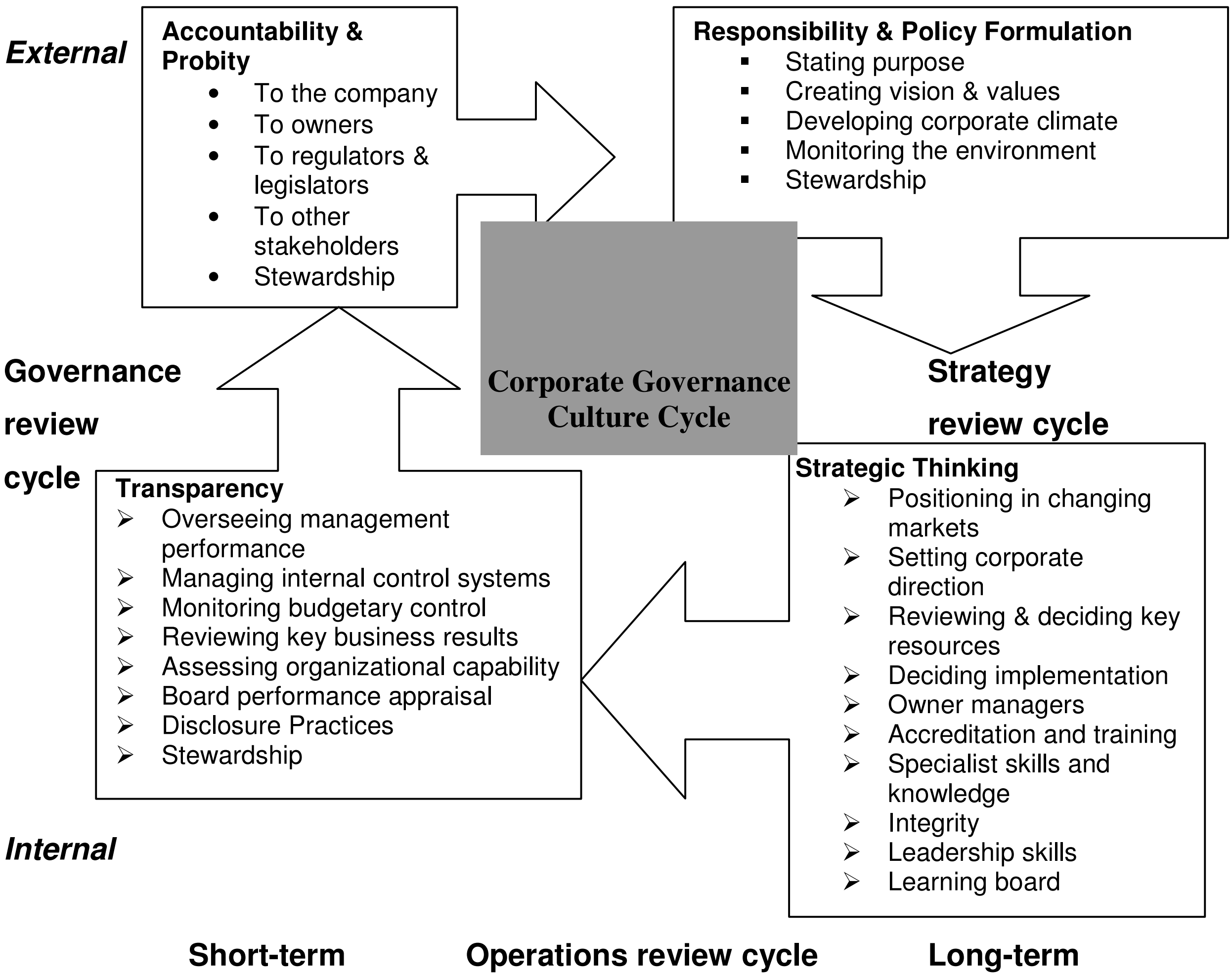

Chart 3.1.2: *Adapted from Garratt (2003)*

The later argument is in line with linking corporate governance to corporate performance Chart 3.1.1/2, which draws together from the literature key elements of corporate governance best practice, which are used to highlight the dynamics of board evaluation and performance from which to develop measures of board effectiveness.

These models are relevant to emerging markets where many of the companies have been created from the nationalization of state owned enterprises or family controlled companies. There are no policies to measure value generation but titles are being used to satisfy directors yet some have no real value addition especially now during the economic transformation process in SA, the researcher has observed. The boards are dominated by owner directors and owner appointed directors Bradley (2003 :111). Chart 3.1.1/.2 are critical in formulating a board effectiveness model (Chart 3.1.3), which creates good corporate governance, and results in good corporate performance that creates shareholder value. In developing the conceptual framework the author used these models; Chart 3.1.1/2 and those in document one to explain the board effectiveness concept.

The Conceptual framework (Chart 3.1.3) was developed in line with the above authors' thinking. The Mechanisms identified by the author are triggered to result in outcomes that affect the effectiveness of directors. Mechanisms which generate social and behavioral problems should be removed or countered through the alternative casual mechanisms. Pawson and Tilley (2004) p 65 and 216 argued that, researchers should understand "why" an action of mechanisms should refer to choices and capabilities that lead to regular pattern of social behaviour." The behaviour of the board has an impact on the company's performance.

Mechanisms (Chart 3.1.3) are activated or triggered by a certain corporate governance culture or ethical behaviour. Realist evaluators seek to understand *"for whom and in what circumstances"* a programme works through the study of contextual conditioning, which results in positive outcomes. Different mechanisms have different effects on outcomes. If all positive mechanisms are triggered, the outcome will be an effective board, while negative mechanisms (attributes) reduce the effectiveness of the board. Attributes that do not support the stewardship theory reduces the effectiveness of the board the author has observed.

The conceptual framework (Chart 3.1.3) addresses the issues raised by the research questions in document one p 15 – 16. In order to develop an effective board, there is empirical evidence that owner managed companies are less likely to fail than those managed by agents. The concept of stewardship explained below shows that owner managed companies are more effective than agent managed for example, Apple, De Beers, Mittal Steel, Luciano Benetton and family, Virgin Group, Microsoft, Tata Group to mention but a few. It is evident that the skills level, family culture and experience of board members has an effect on its functionality, hence the Japanese model of appointing board members is among the most effective in the world. The criteria for appointment is either one has to be an employee of the company, ex-employee or the owner in order to be appointed, which, the conceptual framework, document three and four will endeavor to investigate whether this model work in emerging markets.

The Conceptual Framework

Mechanisms | **Triggers** | **Outcome** | **Corporate performance**

External attributes

- Ownership structure
- Development of strategies
- Evaluation Committee
- Board affairs Committee
- Government policies
- Independent Auditors
- Independent Directors
- Independent Consultancy
- Other stakeholders

External influence

- Shareholder activism
- Regulatory framework
- PESTI
- Power distribution

Internal attributes

- Skills mix
- Knowledge and experience
- Remuneration
- Motivation
- Participation
- Management interest
- CEO influence
- Power distribution
- Internal systems
- Employees

Internal influence

- Internal Audit
- Audit Committee
- Board composition
- Financial control
- NED
- Mission
- Vision
- Strategy

Board continuous development

- Qualification
- Experience
- Remuneration
- Motivation
- Teamwork
- CSR issues
- Culture

Nature of the Board

- Gender composition
- Stewardship Theory
- Agency Theory
- Knowledge and experience
- Conflict of interest
- Ethical issues
- Communities

Board Effectiveness

C.G principles

- *Fairness*
- *Transparency*
- *Accountability*
- *Responsibility*

(Document 1 pp 5)

- **Corporate financial performance**
- **Shareholder value growth**
- **Bank survival and growth**
- **CFROTA growth**

***Chart 3.1.3*: Board Effectiveness Model**

Corporate governance culture cycle is a model that creates a shared mindset, argued Ulrich (1997) among board members, which will create an ethical behaviour of transparency and accountability. The result of which is ROCE and CFROTA being above average, Dulewicz and Herbert (2004: 265) supported this argument. Board effectiveness is a result of linking corporate governance culture to shareholder value. (Drucker 1955) wrote that effective management must direct the vision and efforts of all managers towards a common goal, linking to Ulrich's contribution, which coincides with the author's conceptual framework and supporting models.

3.2 Behind the boardroom door

The researcher agrees with (Garratt (2003: 1) when he agues that there are fundamental differences between "managing" and "directing" an organization and that most current "board directors" are in reality merely rebadged managers as they are only directing not managing. The present global corporate governance crisis in the private and public sectors is a complex mixture of directoral ignorance, strategic incompetence, and greed. (Garratt 2003: 1) argues that a key to resolving the present crisis is to induct, train and appraise directors as true professionals and accept the intellectual, moral and behavioral consequences of this, which answers the research question, why there is need to train board members, which are the attributes that enhances effectiveness Chart 3.1.3.

(Davies 1999), (Ezzamel and Watson 1997), (Garratt 1996), (Mintzberg 1994) and (Helmer 1996) asserted that the board sits behind the boardroom door and provide strategic thinking, which is close to the "guiding" view but implies a stronger leadership and cognitive involvement. This argument agrees with the principles of corporate governance, which state that, *"the corporate governance framework should ensure that strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and shareholders."*

(McNulty and Pettigrew 1999), (Fox 1998) and (Judge and Zeithaml 1992) had developed the argument supporting this notion, but what puzzles the author is, why then do companies fail, while there is all this framework (to be answered in document 3 and 4). The author agrees with the empirical evidence by (Garratt 2003) that, resolutions are prepared by the executives and what really happen behind the boardroom door are to rubber stamp them. The board follows the direction the CEO is taking (Garratt 2003) argued but (Johnson *et al* 1993) had argued that, what happens behind the boardroom door is positively associated with financial performance of the company. This argument brings the paradox why boards fail and where were the boards before the company failed? Warren Buffett put it so succinctly, *"it is only in the rinse cycle that you see just how dirty the washing was. We are in the rinse cycle now,"* we do not know which direction to take as (Professor Howard Schilit 1990s) put it as an era of "creative accounting and manipulation."

3.3 Board effectiveness

(Garratt 2003: 1) argued that, until we see the board's role being professionalized and the supremacy of the board being reasserted, we shall not restore full shareholder confidence in business, public leaders or the markets. (Ingley and Van Der Walt 2002) argued that, while the management literature is accepting the value of performance appraisals, there is disagreement in the governance literature as to the role, value and contribution of board appraisals to board effectiveness. Typically, performance evaluation is concerned with assessing board function and processes which will bring back the confidence. TSE guideline 5 provides that, *"every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors"* (Kazanjin 2000).

(Herman and Renz 2000), (Tricker 1999a), (Dilenschneider 1996), (Van Der Walt and Ingley 2001a) argued that boards should be evaluated as a team maintaining collegiality, while (Blake 1999), (Davies 1999), (Garratt 1997), (Tricker 1999b) and (Walker 1999) argued that board members should be evaluated individually. The author will in document 3 investigate which model is the best way to evaluate board performance. (Kazanjin 2000) and (Steinberg 2000) disagrees with researchers above as they suggest that board appraisals brings discomfort, uncomfortable, disrupt open interaction, collegiality and untrustworthiness among the board and should be left to the shareholders who will vote to remove a director. (Kazanjin 2000) argued that discomfort may arise there by opening a pandora's box revealing sensitive issues such as under-performing or incompetent directors.

(Forbes and Milliken 1999) stated that board effectiveness is likely to be heavily dependent on social-psychological processes like group participation, interaction, information exchange and critical discourse. They also argued that various aspects of board demography are likely to have multiple and contrasting effects on the processes that contribute to effective board performance, which the author calls corporate governance culture cycle and (Chart 3.1.3 (mechanisms)). (Taylor 2001) links knowledge based strategic governance to organizational learning and highlights the need for the board to move from a *"react-and-ratify"* model to a *"define-and-delegate"* approach and to move from a management board to a governance board, which is affected by the attributes below.

3.4 Attributes that affect board effectiveness

Answering the research questions, the author looked at different corporate governance attributes/mechanisms (Chart 3.1.3) and factors that assist or influence board performance and effectiveness. (Taylor 2003: 156), (Hendry and Kiel 2004: 500) observed that, accounting irregularities, level of knowledge, corporate corruption, excess agency costs, and inadequate disclosure practices have significantly affected corporate performance resulting in high profile corporate failures. (Herman 1981), (Mace 1971), (Pfeffer 1972), (Golden and Zajac 2001) and (Stiles and Taylor 2001), (Vance 1983), (Lorsch and Maclver 1989) supported the passive school view, which views the board as rubber stamp or tool of top management whose only contribution is to satisfy the requirements of company law. Managerial hegemony theory supports this school of thought by arguing that boards are a legal fiction dominated by management. This line of thinking argues that board decisions are largely subject to management control especially with the powerful CEOs in developing countries makes life difficult for boards to add value. (Mizruchi 1983) argues that the board has ultimate control and has capacity to fire the CEO hence he agrees with the active view.

(Davis and Thompson 1994), (Hendry and Kiel 2004), (Walsh and Seward 1990), (Finkelstein and Hambrick 1996) disagreed with the passive school and supported the active school, which sees the board as independent thinkers who shape the strategic direction of the organization. The CEO is seen as a visionary who brings solutions to the board for discussion according to the active school; hence the author will have to investigate how boards work in the two countries in document 3. The attributes that affect board performance are as follows:

3.4.1 Stewardship – equity participation

(Davis *et al* 1997) and (Donaldson 1990: 375) argues against the opportunistic self – interest assumption of agency theory, claiming that managers are motivated by "a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility, authority and thereby gain recognition from peers and bosses. (Hugg 1998) and (Stiles *et al* 2001) supported this perspective saying it recognizes a range of non-financial motives for managerial behaviour and it supports the active school, arguing that the strategic role of the board contributes to this overall stewardship of the company. (Muth and Donaldson 1998) agree with above researchers saying that insider – dominated boards contribute a depth of knowledge, expertise and commitment to the firm which facilitates an active strategic role.

The author agrees with the stewardship theory as it gives ownership and total responsibility to managers to run the firm. If boards were appointed as stewards not agency the author agrees that corporate governance problems would not have sufficed. The Japanese model of appointing board members fits very well with the stewardship theory at this stage. (Pfeffer 1972, 1973), (Pfeffer and Salancik 1978), (Goodstein *et el* 1994), (Zahra and Pearce 1989, 1991) added that this theory stems from research in economics, sociology and focuses on the role of interlocking directorates in linking firms to both competitors and other stakeholders. Boards are a “cooptative” mechanism for a firm to form links with its external environment, to access important resources and buffer the firm against adverse environmental change.

An important factor that underlines the importance of stewardship is the exceptional ability to generate wealth. Joint research in the US, UK and SA has revealed that owner managed (stewards) businesses generated jobs and wealth on a much larger scale than any type of business (Adendorff, *et al* 2005), (Hugo 1996), *(*Van Der Merwe 1999) and (Zimmerer and Scaborough 2002). In SA owner managed businesses listed on the JSE during 1987 – 1992 recorded a rate of return of 36% compared to the rate of return of 27% recorded by non family managed businesses (Venter 2002:. 33), (Maas 1999a a & b) , (John 1994:.26), (Beckhard and Dyer 1983), and (Sharma 1997). These researchers and the statistics above support the argument that directors should be owners and former employees of the organization.

3.4.2 Board knowledge and experience

(Demb *et al* 1992) queried why boards fail? Their argument was that apathetic, unqualified, inexperienced director and self – interested directors are certainly among the reasons, but these directors account for the uneven performance of the board, hence the author advocate for director accreditation as a way for continuous development of directors. (Anderson and Anthony 1986: 1) quoted Peter Dricker who argued that the board of directors is an impotent ceremonial and legal fiction as the board has little choice but to follow meekly where the CEO leads them as they are not experienced to execute their duties, which the author is keen to find out Dricker's argument.

(Garratt 2003), (Kakabadse 2002) and (Frederikson 1992) argued that investors are willing to pay a premium of up 27% when investing in a well structured organization. (Rossouw 2002), (Hyden and Barton 1993) termed these social aspects of enterprise leadership as the basic elements of governance that is degree of shareholder trust, accountability and director experience and skills level. The author agrees with the above contribution in that experience plays a role in director effectiveness. Effective directors have to have a mindset that allows them to be comfortable handling high levels of uncertainty, while maintaining both their sense of direction and their moral stance.

3.4.3 Transparency and financial control

DuPont used a pyramid of financial ratios, which were linked to ROI. The pyramid had an explicit hierarchical structure linking measures at different organizational levels. This held management responsible not only for measures of margin and net income but also ROI and introduced an early concept of performance management to organizations, (Neely and Austin 2002). (Johnson and Kaplan 1987) blamed the IAS (IFRS), (Professor Howard

Schilit 1990s) called it an era of “creative accounting,” (Barnes 2004:. 91) called it manipulation of accounting information – eventual failure and fraud. These researchers found out these as the reasons for board ineffectiveness and why corporates fail.

(Turnbull 2006) argued that external auditors do not add shareholder value but just an unnecessary cost that reduces tax revenue. IFRS allows auditors only to check on a test basis leaving the responsibility to the board. If the boards act as stewards then they do not need to appoint a third part to check on what they are doing as they are mandated by shareholders to look after their interests argued (Turnbull 2006). (Turnbull 2006) argued that appointment of auditors is a way to support the Agency Theory so that shareholder gets comfort while fraud is going undetected. The author will look at Turnbull’s argument in document 3 with keen interest as the researcher has been influenced by the Stewardship and Active School theories.

(Melis 2004), (De Jong 1997), (Moerland 1995), (Pagano et al 1998) and (Amatori and Colli 2000) argued that shareholders have played a marginal role in the administration of the companies they own and boards abuse their power by appointing third parties to check on how they operate. (Spira 2003: 180) mentioned that bad news sells newspapers and audit failures make headlines, the argument here is that fraud does not happen in a day but over a number of years for example (Enron, WorldCom, DRDGold, Leisurenet BCCI Banks in South Africa and Zimbabwe). The question is what were they auditing and where was the boards? The relevance of auditors has been a black box argued

(Armstrong 2003). This ineffectiveness of auditors affects the effectiveness of the board argued (Turnbull 2006).

Supporting the Turnbull's argument of auditor irrelevance, (Corrin 1993: 81) coined his support for Turnbull that the whole structure is like "soap" where the NEDs is cast as saint, the auditor is a tarnished guardian angel and the executive director is a villain. The focus on executive directors has shifted attention away from implications for the accountancy profession of audit failure resulting in the introduction of the (Sarbanes – Oxley Act 2002). In support of this act the author suggest that audit committee be legislated to take over the responsibility of financial reporting as the assumption made by the Cadbury Report about audit committees remain largely unchallenged and untested, (Corrin 1993), (Lindsell 1992), (Grout *et al* 1994), (Samuels *et al* 1996) and (Millstein 1999) supported this argument.

The assumption that auditor "independence" has a direct influence on the quality of financial reporting deserves some examination. Independence is ultimately a psychological construct and the appearance of non – independence is only indicative of the likelihood of non – independent behaviour, (Gwilliam 1987: 105), (Wolnizer 1995: 45). Unless accounting and audit practices are reformed so that financial statements can be authenticated by recourse so reliable commercial evidence, audits are red herrings argued (Wolnizer 1995). The presumption that steps taken to strengthen the independent status of auditors will lead of themselves to more "objective financial statements" is unfounded (Wolnizer 1995: 54) argued.

3.4.4 Shareholder Activism

(Millson and Ward 2004: 81) argued that, private equity partnerships are primarily concerned with the strength of the management team of the respective company. In their research, respondents indicated an overwhelmingly strong preference for an experienced board whose members have together achieved success and or who have previously worked in the same industry in which shareholder would want to invest. They also argued that investors strongly avoid companies where the board has little prior experience in the industry or technology. This argument supports the author's conceptual framework and answers the research question that board members need to be trained and accredited for them to be appointed to the board.

(Koontz 1967: 75-6) argues that there are matters typically requiring shareholders' action, which, by their very nature, should be approved by the board before submission to shareholders, which means board members and shareholders must have the necessary skills for them to make effective decisions. (Pomeranz 1998), (Monks 2002 a and c), (Shleifer and Vishny 1997) argued that although shareholders can exercise their voting rights, in reality these rights are not only expensive to exercise but also to enforce and are susceptible to managerial interference by coercing shareholders to support them and concealing information from their opponents.

The problem with Koontz's argument is that of information asymmetry as shareholders only wait for information from the board and only sits on the annual general meeting. Shareholder activism is very passive in Africa (Shareholder apathy – business report 06 December 2005) due to the fact that most of the block holders are governments through nationalization, who by their nature do not understand how boards work. (Puckey 1969: 230) stated that, on the whole directors are not honest and manage organizations to oppress their shareholders by strictly legal means as a result of conflict of interest.

Taylor (2003 : 3) and Sir Puckey (1969 : 253) supported the author's argument that shareholders and directors need training. He argued that the forces existing in business environment have weakened greatly the role of ordinary shareholders and many directors now believe that although they are nominally, "the owners of business" their authority is of declining value. Shareholders as a class require to be stimulated much more than they are today, and there is much need for a major new effort by IOD in training shareholders and directors. City Press Business (12/06/2005) argued that informed shareholder activism can be a force for good corporate governance and need to be encouraged, as corporate scandals committed by some boards are the worst enemies of capitalism. These scandals tell us that the greatest threat to capitalism in the 21st century is not the Communist party but greedy executives whose actions have plunged capitalism into an unprecedented crisis of credibility.

In South Africa and Zimbabwe the greatest threat to business is the system of governance and business leaders who are self centered and greed, who resist change argued Dlamini (2006). Shareholders have the right and responsibility to use their muscle to ensure that companies in which they invest are managed wisely and do not resist the winds of change in the local and global economies. As a result of ignorance they do not exercise their rights in the governance of companies they are shareholders. It is against this backdrop that shareholders must participate in the decision-making process of the companies they are shareholders, Garten (2003), Kirby (1996), Kostant (1999), Wharton Jr (1995) and Stapledon (1996)

3.4.5 Regulatory framework

Dulewicz and Herbert (2004) argued that in the 1990s scandals involving gross dishonesty and fraud resulted in the publication of the Cadbury Report (1992) after all other reports had failed to address the issue of corporate failure Chart 2.2.1 above and figure 2.1 in document one : 7. South Africa and Zimbabwe are affected by all these peaces of legislation as US and UK companies operate in these countries. Figure 2.1 and Chart 2.2.1 shows how the regulatory framework has been reactive to scandals and to date corporate governance practitioners and governments have failed to be proactive to corporate failures.

A recent indication is the rushing of passing the Sarbanes – Oxley Act (2002), (Garratt 2003 called this act a disaster) and NYSE listing requirements into law without checking the effects of that law in the US and world over. Jones and Pollitt (2002a/b) and (2004), Mori (2003), Dulewicz and Herbert (2003), Gay (2001) argued that all these reports have failed to address the corporate governance crisis including the King 11 (2002) Report and Myburgh (2003) Report used in Africa as a guideline on best practice. The King 11 Report is just a public relations document being used to attract FDI with out any meaning or value addition argued Barnes (2004). The Cadbury report is the only peace of legislation that stands out among its successors as having a high quality process of investigation in the face of varied, strong influencer interest and implementing radical yet realistic proposals resulting in its international recognition.

The legal framework has actually supported the maximization of agency costs by allowing alternative treatment in the preparation and reporting of financial statements (IFRS) and the Companies Act. Monks (2003) quoted Drucker when he stated that, *"Whenever an institution malfunctions as consistently as board of directors has in nearly every major fiasco of the last forty or fifty years it is futile to blame men. It is the institution that malfunctions."* Everyone had their share of responsibility when Enron collapsed but there was a veritable chorus of "***we were mislead by management," "we were mislead by auditors," "we instituted systems of controls that we were entitled to believe would do the job," "Reality cannot be laid at our door."***

This was the board's reaction. What is striking is that the board approved very important transactions in full knowledge that the accounting treatment did not convey an accurate picture of the economic implications of the matter. The auditors who certified that transaction complied with GAAP and received very large fees to contrive the transaction. The auditor went on to confirm the going concern of Enron. Audit as a profession has failed, hence the recent development of the new act on audit to tighten up the rules. The development of forensic audit shows how audit has failed to add shareholder value.

Development of the King 11 Report was an indication of the failure of the governance system in the countries under review. The King committee was composed of volunteers; hence the result of the report is not binding at law. The Zimbabwean government indorsed its own code of best practice which is not binding at law as well. This lack of commitment on the part of legislators has left shareholder vulnerable to abuse by directors and management. It is the author's view that audit be revised as it does not only reduce shareholder value but deprive government of revenue as audit fees are allowable and use the law to maximize their own interests.

3.4.6 The agency theory

An agency cost is the cost incurred by an organization that is associated with problems such as divergent management – shareholder objectives and information asymmetry. The agent (director) is working on behalf of the principal (shareholder) who does not observe the actions of the agent. The information asymmetry that exists between directors and shareholders is generally considered to be a classic route of the principal – agent problem first identified by Jensen and Meckling (1976). They argued that the separation of ownership and control together with growth in their share capital, leads to a diffuse ownership situation in which the power of large shareholders is diluted. This weakness and information asymmetry affords management a greater level of control which, based on agency theory is likely to be self-serving.

Eisenhardt (1989) argued that agents are opportunists who operate with bounded rationality – they will self satisfice rather than profit maximize on behalf of the principal. This theory argues that the major role of the board is to reduce the potential divergence of interest between shareholders and management. Zahra and Pearce (1989) : 302 disagreed with Eisenhardt (1989) that the importance of the board's role places a premium on a board's strategic contribution, specifically the board's involvement in and contribution to the articulation of the firm's mission, development of the firm's strategy and setting of guidelines for implementation and effective control of the chosen strategy.

The author disagrees with Zahra and Pearce (1989) as the board does not have enough time to add value to the firm as it should. Individuals sit in many boards rendering themselves ineffective as they are left with little time to add value. They sit as a board four times a year leaving the rest of the year to management to run the business as they wish. Most board members do not even attend board meetings as reflected in all banks' attendance registers document 3. Zahra and Peace's argument does not apply in Africa where most of the directors do not have the experience in an organization which they are directors. Special skills required in the financial sector, has led to firms compromising the skills level. The introduction of the BEE as a strategy has worsened the situation as BEE partners sitting as board members, are ignorant of operations of the sector.

3.4.7 Auditor Independence

Melis (2004 : 77) argued that, the main task of auditors is to monitor the directors' performance in the discharge of their duties and Cadbury (1992) stated that annual audit is one of the cornerstones of corporate governance. Although an increasing amount of research has focused on the relationship between governance structure, the entrepreneurial activities and performance of the firm, relatively little empirical work has examined the impact of internal governance characteristics on external auditor pricing decisions, relevance of their work and what value they bring to shareholders.

Adams et al (1997), O'Sullivan (1999), O'Sullivan and Diacon (1994), argued against Cadbury and Melis, that audit costs have become so exorbitant compared to the value they bring to shareholders. They advocated that stronger internal corporate governance mechanisms, board structure and experience are important to transparency than to put reliance on auditors. Turnbull (2006) in his article called "How can auditors lie about being independent" argued that the markets have been brainwashed by the repeated statements in audit reports that auditors are independent. He added that, it is because we do not dare to consider the possibility that the law, regulations, regulators, auditing standards, stock exchange rules, corporate governance codes and the professional code of conduct for accountants have got it wrong.

However, a potential problem is how we have to deal with the legislation to change this brainwash and lie. The author agrees with Bazerman et al (1997), Turnbull (2006), O'Connor (2002/04/06) that markets have been brainwashed to believe that auditors are relevant that they add shareholder value yet they seem to be an unnecessary expense. The author therefore submits that audit fees should not be allowed as a tax deduction (it is shareholders' own choice to appoint auditors) so that the tax on audit fees can be used for infrastructure development.

3.4.8 Summary

As an organization's ultimate decision-making body, the board is inexorably linked to corporate performance. Schein (1999) and Pye (2001 : 192) developed the notion of culture as being a set of psychological pre-dispositions developed and shared by members of a group over time, which leads them to think and act in particular ethical codes. Boards should not be any different to any other cultural grouping (Chart 3.1.2 p 22). The literature review has conceptualized how boards work and what are the factors that affect the effectiveness of the board Chart 3.1.3. Document one contributed that, for directors to be effective, board members needs to be part of the shareholding and this review introduced the stewardship theory as the attribute that improves board effectiveness. The proposition exists that strategic decision-making by the board is the link between board effectiveness model and corporate financial performance. Effective strategic decision-making by the board in turn is dependent upon the experience, independence of judgment, very specific competences, and behaviors of individual directors and the ability of that board to work together as a team. This is not the case in the financial sector as direction comes from the CEOs and Chairmen.

Leblanc (2004 : 440) argued that the missing link in establishing the relationship between board governance and corporate performance may be an understanding of that elusive activity called board process. Effective board process require high level of knowledge and experience, hence board members need training, ownership and investor participation for them to operate effectively. Levine (1999) added that the presence of foreign banks improves efficiencies in how banks in emerging markets operates as they are governed by international codes of best practice, hence becoming prudentially sound.

Professor Stanley Milgram who showed how good people can do the wrong thing from, "peer pressure and the power of authority," argued that people have been conditioned to believe that auditors are independent like the citizens of apocryphal country, where everyone believed that the Emperor was wearing clothes when he was not. The word independent has become lost in the thicket of convoluted words used to define independence in regards to auditors in the law, regulations, auditing standards and professional codes of conduct.

However, by lack of independence as auditors are affected by collegiality they have lost value and hence shareholders need not appoint auditors and should delegate this responsibility to audit committees. The responsibility of reporting need to be carried by the shareholders, directors, and audit committees, which will reduce the level of information asymmetry and increase shareholder participation in the administration of the banks.

The conceptual framework answers the research questions and addresses the agency theory problem in general. The researcher has observed that, mechanisms or attributes that do not support the stewardship theory reduces the effectiveness of the board, while supporting the agency theory. Distribution of power is important to the functionality and ethical behaviour of the board. The effectiveness of the board is also influenced by the environment, both internal and external. Chart 3.1.3 supports the value creation model by Garratt (2003 : 156), in that when all positive mechanisms are triggered, will result in an effective board as measured by the corporate governance principles Johnston (2004 : 22), shown under board effectiveness on the conceptual framework, which will be tested in document three and four.

4 Measuring board effectiveness

Kaplan and Norton (1992/6a/6b) developed the balanced scorecard in trying to measure performance of management and organizations. The researchers identified the need to ensure that financial performance, the drivers of it (internal, operational and customer performance) on going improvement and future performance are given weighting. The concept however has some short comings including, environmental perspective, employee/human resources satisfaction and shareholder perspective. Brown (1996), Lingle and Schiemann (1996), Ewing and Laundahl (1996) and Maisel (1992) agreed to these short comings. The balanced scorecard therefore does not determine success such as generic strategic objectives of quality, cost, turnaround, board effectiveness and flexibility.

Dulewicz and Herbert (2004) and Muth and Donaldson (1998) argued that profit is an opinion and cash is a fact hence argued that ROA, ROE, ROCE, Profit and Sales growth are opinions which are subject to manipulation while CFROTA is a fact. To measure the effectiveness of different boards of banks the author will use CFROTA as its numerator circumvents the impact of variously contentious accounting policies (IAS 000 – 41 or IFRS) and its denominator gives expression to the total value of all conventional assets while taking cogitate of other variables. Dulewicz and Herbert (2004) called this measure a plausibly robust measure of the efficiency mustered by the company's leaders in marshalling the resources with which they have been entrusted.

The measure of success in developing markets is profits, ROI and headline earnings. The growth in these is an indication that the bank is performing very well and results in heft bonuses being paid to the CEOs. The financial sector is a heavily regulated industry that does not give any leeway to show the board's competency. Interest rates, gearing, liquidity and type of business is determined my the Registrar of banks, meaning that everything is given. The author calls this sector an industry on "auto cruise." The market has no choice but to deal with banks and have no say on how much they will be charged which are the bank's profits.

Steger (2004) : 110 argued that, recent, spectacular business collapses share one major commonality. When the reasons for the failures were debated, one central organ was often put to the pillory: "the board of directors." The underlying trends here are the ever increasing agency costs, which results in poor financial control and information asymmetry. South Africa and Zimbabwe has no defined board appraisal system or evaluation process. Van Den Berghe and Levrau (2004) supported the author that advocates of corporate governance in developing economies plead for a formal board evaluation; this is still a bridge too far for most boards of directors.

4.1 Financial sector governance processes

Survey of banks in South Africa and Zimbabwe done by KPMG (2003) revealed a number of weaknesses in their corporate governance, which include the appointment of board members, level of expertise, experience, succession and training of directors. The Registrar of banks Errol Kruger (Registrar of Banks) (2006) called the boards clubs as only friends are appointed without considering merit. Directors accept appointment for prestige without understanding their responsibilities and duties, Business report (05 August 2006).

The failure of the legal framework which resulted in firms adopting the King 11 Report (2002) as the code of best practice has resulted in banks failing to comply with international codes of best practice resulting in most banks failing Appendix 1. These problems are issues that have resulted in poor performance of the boards, while banks' are performing very well. The reason being that this is a sector on auto cruise, where the banking regulations stipulate what interest banks charge clients, hence making huge profits not as a result of the effectiveness of directors.

4.2 Corporate governance linkages to Concepts

Concepts are the building blocks of theory argued Bryram and Bell (2003). Fisher (2004) stated that clear definitions of concepts and creating a conceptual framework are a means of simplifying the research task (structured or grounded approach). The author opted for the grounded approach in order to be able to focus on issues that affect developing countries after looking at the evolution of the field of study and research questions.

The author selected South Africa and Zimbabwe among African countries as they seem to follow a similar pattern of growth and policy (affirmative action, ESAP and BEE) changes and have similar economic historical background. The King 11 Report (2002) is applied in both countries and have same legal framework (Roman – Dutch Law). The emerging market crisis of 1997 – 98 drew attention to the nexus between sound corporate governance and effectively functioning capital markets. While the crisis was set off by currency, interest rate and asset price volatility, it was perpetuated by vulnerable corporate and banking balance sheets unable to absorb the volatility, which raised how corporations were governed. Malherbe and Segal (2001) argued that the crisis had massive negative externalities and affected the value of many firms on the JSE and ZSE.

The author on p 21 and 22 above adopted models which can be used by firms so that they remain structured and focused during periods of crisis by have performance measuring systems which cannot be manipulated (CFROTA), which adds value to shareholders. The corporate governance culture cycle is a tool that promotes transparency, accountability, strategic thinking and responsibility. The models promote the stewardship theory and the Japanese model of board appointments. The use of these tools in answering the research questions and reviewing the literature assisted the author to develop the conceptual framework Chart 3.1.3 “The Board Effectiveness Model.”

The model benefits firm stakeholders as it promotes transparency, individual skill, ethics and consistency of managing the environment. Board effectiveness is the beginning of good organizational performance and governance, which eliminates the agency theory discussed above. The model eliminates the concept of teamwork on board evaluation as collegiality affect individual evaluation. Individual board performance evaluation helps in making the whole team perform effectively.

4.3 Summary

The analysis of board structure and effectiveness addresses the role of the corporate board and its ability to provide independent oversight of board’s performance and to hold management accountable to shareholders and other relevant stakeholders while ensuring that management is appropriately motivated argued Bradley (2003 : 111). The author agrees that this is the focal point of corporate governance as the board is the bridge between owners and managers. Shareholders provide funding for the business in exchange, expect a return on their investment – usually from a combination of income (dividends resulting from the profits made by the business) and capital appreciation, resulting from the increase in share price as a consequence of the sustainable long – term growth of business.

Real return is measured by CFROTA, which is a measure not easy to manipulate like other accounting measuring techniques. For the boards in the financial sector to be truly effective, not only must an appropriate structure and qualified directors be in place, but individual board members also should be engaged, well informed and represent diverse skills sets and perspectives. Diverse skills is a critical attribute that will make boards more effective, hence the author addresses the research questions that directors should belong to a professional board which will continue to train its members.

5 Research Outline

As discussed in document 1, the literature review has provided the knowledge and contribution to this study by articulating historical research in this field, which resulted in the author being able to develop the conceptual framework to answer the research questions. The literature review and the conceptual framework will be used as the basis for document 3 in answering the research questions, identifying respondents and developing questionnaires. Document 3 will explain the reasons for bank failures in SA and Zimbabwe using these as case studies. Comparison will be done between successful banks and arguments by other researchers will be tested in document 3 and 4.

The models discussed in this document will be used as the tools in developing quantitative analysis of the research in document 4. CFROTA is the tool which will be used to measure board effectiveness and how it impact on shareholder value creation. Analysis of different banks will be done in order to prove which banks adhere to the conceptual framework.

Document 5 will consolidated the work in all the prior documents and solution corporate governance problems and answer the research questions with evidence from document 3 and 4. At the end of this document, the store of knowledge will have been raided.

6 Conclusion

The challenge is two fold, to maintain the board's key role in the governance system while working with governments, other stakeholders, institutions and approach to corporate governance that recognizes three pivotal realities of the twenty first century argued Demb and Friedrich Neubauer (1992 : 4), which are:

- To achieve both societal and business objectives, a governance approach is needed that fosters a new concept of partnership between directors and shareholders
- Business should be an effective engine for societal development and therefore the governance demands should assist business to maintain a platform of creating shareholder value, profitability and innovation
- Shareholders and directors must approach their activities with full understanding of broader responsibilities that the present scale and impact of business activity entails.

Westphal (2002 : 6) and Leblanc (2004) nearly two decades of research finds little evidence that board or auditor independence enhances board effectiveness. Studies have, however found a negative effect. The most important predictor of director effectiveness is not independence, but evidences that strategic experience and stewardship matches the company's needs. Director experience is critical to the board effectiveness, is relatively new evidence. Ingley and Van Der Walt (2004) coined that tougher legislation; tighter control and regulatory reform (discussed p 36) are insufficient as remedial measures to resolve problems of governance weakness that lead to corporate underperformance.

The conceptual framework has proved that experience is the best teacher and is a motivation for stewardship theory as directors should not only look at monetary compensation as a motivating factor but a sense of belonging, ownership, growth and responsibility. Literature review has shown that training of directors results in a learning board, which is more effective. Shareholder activism is very passive in South Africa and Zimbabwe as a result of deregulation of the economy, new shareholder has no knowledge to run businesses, which needs to change. Active participation of shareholders will keep directors on their toes as they do not have to wait for the AGM for them to vote against the reappointment of a director.

Attributes or mechanisms that add shareholder value include director continuous development, stewardship theory, Japanese model of board appointment and owner managed entities as listed in Chart 3.1.3. These attributes have been explored in this review and the conceptual framework, linked to the research questions and document 3. The conceptual framework and the literature review has illustrated that individual board experience and knowledge have an impact on board effectiveness, better organizational performance and teamwork which will add value to shareholders.

The value generation model on p 21 has reviewed that there are some attributes which are negative to shareholder value generation like audit fees and agents costs. This model and the literature reflected that audit fees are unnecessary costs which should be avoided as they are depriving revenue authorities' funds for societal development as audit fees are allowable for tax. Shareholders and appointed directors should take ownership of running the entity not to appoint third parties who also exonerates themselves from the responsibilities of the actions of the directors.

The next piece of this research (document 3) will contact a series of interviews to gather qualitative data for inclusion in the study and identify issues that will generate the questionnaire. The questionnaires will be supported by the information gathered from different research gurus in the literature review. The focus groups for interviews will be mostly CEOs, board members, market analysts, company secretaries, shareholders and different market experts to explore the characteristics of effective board performance in different banks.

Implementation of the conceptual framework will be tested during the interviews in order to unpack the relevance of the model to South African and Zimbabwean perspective. The intention is to begin to look at all the research questions, debates and outstanding issues in the field of corporate governance. This research is designed to fill the gaps, which still exist in this field as the King 11 Report has proved to be inadequate in both countries as it has created awareness. The different theories, passive, active, stewardship and agency will be discussed in documents 3 and 4. They will be used to fill the gap in knowledge of and provide possible solutions to the problems of corporate governance in South Africa and Zimbabwe.

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www.ecgi.org/menu_americas
www.fingaz.co.zw
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www.transparency.org

Appendices

Appendix 1 – List of Banks that failed in South Africa and Zimbabwe

Year	SA Banks and reason for failure	Zimbabwean Banks and reason for failure
1989 - 1991	o Alpha Bank Ltd: Internal and external CG failure, mismanagement and fraud	
	o BCCI: Money laundering and fraud	o BCCI: Money laundering and fraud
	o Cape Investment Bank Ltd Internal and External CG failure and fraud	
	o Pretoria Bank Ltd: Internal CG failure	
	o Sechold Bank Ltd: Mismanagement and fraud	
1993	o Prima Bank Ltd: CG failure	
1994 - 1999	o Community Bank Ltd: Mismanagement and fraud	o Nubian Pvt. Ltd: Internal CG failure and abuse of power
	o FBC Fidelity Bank Ltd: Internal and external CG failure	o United Merchant Bank Pvt Ltd: Mismanagement, fraud and internal CG failure
	o Islamic Bank Ltd: Internal and external CG	

	failure and fraud	
2000 - 2005	o New Republic Bank Ltd: CG failure	o Barbican Bank Ltd: Government interference, External CG failure and mismanagement. Trading in non banking products
	o Ons Eerste Volks Bank Ltd: Fraud, mismanagement, and CG failure	o Century Bank Holding Ltd: Mismanagement and fraud as a result of failure of political governance system. Misrepresentation of financial statements.
	o The African Bank Ltd: Mismanagement and External and internal CG failure	
	o Real African Duroling Investment Bank Ltd: Internal CG failure	
	o Regal Treasury Bank Ltd: Mismanagement and failure of the internal CG	

	systems	
	o Saambou Bank Ltd: Mismanagement, fraud and Internal and external CG failure. Directors' inexperience and nepotism	o Time Bank Ltd: Government interference, mismanagement and failure of the governance system. Misuse of depositors' funds
	o Southern Bank of Africa: Internal CG failure and fraud. Mismanagement, Government interference and misallocation of resources	o Trust Bank Pvt. Ltd: Government interference, internal and external CG failure and mismanagement. Misuse of power and allocation of resources
	o TA Bank of South Africa Ltd: Internal CG failure, fraud and mismanagement	o Unibank Ltd: Mismanagement, fraud and Internal CG failure
	o The Business Bank Ltd: CG failure and fraud. Misuse of resources and mismanagement	

Note: Both banks in SA and Zimbabwe that failed has shown that all were caused by the failure of the internal and external corporate governance system

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Document three

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Research methodology and the use of ethnographic methods

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List of Acronyms and Abbreviations

AGM	Annual General Meeting
BASA	Banking Association of South Africa
BEE	Black Economic Empowerment
CA	Chartered Accountant
C-B-S-R	Competency, Behaviour, Strategy and Recruitment model
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFROTA	Cash Flow Return on Total Assets
Dr	Doctor
DTI	Department of Trade and Industry
ED	Executive Director
ELCC	External Loans Coordinating Committee
ESAP	Economic Structural Adjustment Programme
FD	Financial Director
FNB	First National Bank
GIBS	Gordon Institute of Business Science
ICA	Institute of Chartered Accountants
ICBC	Industrial and Commercial Bank of China
ID	Independent Director
IOB	Institute of Bankers
IOD	Institute of Directors
ISA	International Statements on Auditing
JSE	Johannesburg Stock Exchange
LSE	London Stock Exchange
MBA	Master in Business Administration
NED	Non-Executive Directors
PESTI	Political Economic Socio-cultural Technological and International
RBZ	Reserve Bank of Zimbabwe
ROCE	Return on Capital Employed

ROI	Return on Investment
SEC	Stock Exchange Commission
SA	South Africa
SARB	South Africa Reserve Bank
SME	Small to Medium Enterprises
TSE	Toronto Stock Exchange
UK	United Kingdom
US	United States
ZBAG	Zimbabwe Bank Association Group
ZSE	Zimbabwe Stock Exchange

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1 Background to the Study

Much of the current debate on corporate governance has centred on practical issues, including corporate fraud, the abuse of managerial power and social irresponsibility. In essence, the debate is about how to solve these perceived problems in corporate practice. For many commentators corporate governance is about building effective mechanisms and measures, either in order to satisfy current social expectations or to satisfy the narrower expectations of shareholders argued (Letza *at el* 2004: 242). In the UK, several influential proposals have been produced in recent years in an attempt to settle the practical issues affecting corporate governance (Cadbury Committee, 1992; Greenbury Committee, 1995; Hampel Committee, 1998; Turnbull Committee, 1999; Higgs 2003).

In conjunction with the practical debate sits a debate on the theoretical framework and the quest for the optimal or superior theoretical model of corporate governance. The debate has touched many deep-seated, fundamental questions, for example, hat is the purpose of the bank? In whose interest is the bank run? Who should control the bank? How should they control it? In general, corporate governance is about the understanding and institutional arrangements for relationships among various economic actors and corporate participants who may have direct or indirect interests in a bank, such as shareholders, directors/managers, employees, creditors, suppliers, customers, local communities, government, and the general public. Different perspectives in theory result in different diagnoses of and solutions to the problems of corporate governance practice.

This document explores the corporate governance understanding, institutional arrangements and relationships that exist between different stakeholders who include among others, auditors, NEDs and IDs in the financial sector in Southern Africa (Diagram 6.1.54). The research focuses on the operation of corporate governance in the financial sector, and how the relationship between independence and transparency of board of directors and auditors triggers execution of their fiduciary duties. The proposition is that transparency can be enhanced and information asymmetry reduced, if NEDs, IDs and Auditors are independent. Independence is meant that they do not have any conflict of interest with any of the stakeholders concerned in the financial sector.

The argument is suggested that NEDs, IDs, and Auditors are less independent than they might be as a result of the following factors:

- They are all interconnected through professional networks (Diagram 6.1: 54);
- Their concern is to maximize their emoluments and fees from their role as directors and auditors. Transparency is affected by information asymmetry as directors are self – seeking and opportunistic economic utility maximizers, argued (Millson and Ward 2004:75), which the author will try to find out if this applies to this sector. People are generally not perfectly honest and truthful, resulting in the agency problem, which is rooted in the interest of the principal being different from that of the agent and the agent hiding information from the principal (information asymmetry), as argued by Hendry (2002:98). Directors and auditors are influenced by their association and fees stated (Turbull 2006:1);
- The banks on whose boards they serve expect NEDs and IDs to channel deals from their companies they own or serve.

These factors suggest that in addition to the classic agency problem that can exist between managers and owners, there can also be an agency problem between NEDs, IDs and owners. Whilst membership of professional associations can diminish independence, the existence of professional codes of conduct and professional practice may serve to minimize conflict of interest together with the stewardship theory discussed in document 2.

In this document, elite interviews (senior practitioners in the field of research) were interviewed together with leading players in Southern Africa financial sector to discover their views on the complex dynamics between independence and transparency. This will help to discover whether in their view, independence increases transparency, diminishes conflicts of interest and leads to better corporate governance or not. As the head offices of all the four banks are in SA, most of the interviews were conducted at head office level.

1.1 Corporate Governance dilemma in the Financial Sector

Within any group, members will have preferences for association with other members. These association preferences, which may be of attraction, rejection, racial, gender or simply indifference, constitute the field of study of sociometry, argued (Moreno 1953: 5). Sociometry is defined as an instrument used to identify the association preferences, which can be combined with the Spearman's rho in trying to measure the strength between associations.

The association that has created the CG dilemma is the networks that are created by the organizational association matrix (Diagram

6.1: 54), which result in the appointment of auditors, NEDs and IDs. Shareholders tend to trust people they are familiar with or those that are in good standing that is with a good track record in their professional career or business success. Some board members are appointed to represent certain interests of shareholder hence they are instructed by the shareholders, how they will be conducting themselves during their term of office. If one is not a member of the network will find it difficult to be appointed (Turnbull 2006:1). Auditors, ED, some NEDs and IDs belong to the same institutions, bringing the concept of collegiality but governed by institutional professional ethics. NEDs and IDs have divided loyalty as they are after creating their own wealth while the bank expect them to bring in business from their companies, argued (Turnball 2006: 1).

CG stakeholders were identified based on the level of interest and power on the administration of banks. Diagram 6.1: 54 is based on the total population of 34 respondents, 20 of which are members of the Institute of Chartered Accountants and five attorneys and a mixture of economists and engineers who all work for different banks. Based on these respondents, the researcher realized that there are strong linkages in these associations which can affect independence and transparency. The research has shown that the connection matrix is based on membership of an association. Sixty (60%) percent of the respondents (20 respondents) preferred to be associated with members of the same institution. Forty percent (14 respondents) agreed that the boards needs to have a mixture of skills but should have some association either being members of IOD or other membership so that they have the same ethical conduct. These interviews were carried out in order to justify the linkages on the associations in Diagram 6.1: 54.

Document 1 and 2 has shown that, stakeholders identified above have an interest in sharing the profits of the bank. Auditors receive fees, ED, IDs and NEDs receive remuneration, and shareholders' interest is capital and dividend growth, while the bank expects directors to create opportunities through their networks, creating the conflict of interest in all associations.

1.2 The dilemma

Auditors and executive directors of banks are mostly members of the institute of Chartered Accountants (Appendix 1). NEDS, IDs and ED belong to the same associations as reflected by Diagram 6.1: 54 and both derive income from the bank in the form of fees or remuneration. Auditors provide audit and advisory services to the bank and generate fees, hence calling the banks key clients. The Reserve Bank regulates the industry, generate income from money lend to banks, provides compliance and monitoring services, while the Government is interested in the income tax from the profits generated by the bank. Shareholders' are interested in the capital and dividend growth (dividend policy). These different interest levels are the basis of the agency theory and conflict of interest, (Turnbull 2006: 1).

Communities and other stakeholders like employees have little power in how income is distributed; hence they have to benefit from the CSR (Turnbull 2006: 1). What causes the dilemma is the scramble for the scarce resources (income). Mitigating factor is that directors are regulated by their membership to the associations and are bound by the institutional ethics, which advocates for professional conduct. NEDs and IDs are business people whose businesses depend on the banks funding their financial requirements hence the conflict of interest affects their independence, which results in information asymmetry affecting transparency (Myburgh 2003). The dilemma is as a result of conflict of interest (divided loyalty).

The association between NEDs, IDS, EDs and Auditors is enshrined in their membership to ICA, IOD and banking associations. These associations are evident in both SA and Zimbabwe. As a result of confidentiality and the head office being in SA most of the interviewees had to be at the head office. These were the officials allowed to discuss the research project and CG issues affecting the banks.

2 Research Questions and Conceptual Framework

2.1 Research Objectives

Research objectives will remain unchanged from those set out in documents 1. The main themes remain as effectiveness of the board, training, independence and transparency, which the researcher will test how they affect IDs, NEDs, Auditors and the banks' reporting framework and risk management. The focus of this research is to understand corporate governance practices in the financial sector and the roll of directors and auditors.

a. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial service sector and to investigate themes that affect good corporate governance practices. Different themes will be used to assess why investors prefer to invest in another bank and why banks perform differently while operating in the same environment. Banks to be covered are ABSA – (Barclays), FirstRand Bank (CBZ), Nedbank (MBCH Bank) and Standard Bank (Stanbic Bank).

b. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency

a. To establish if training and accreditation of directors can improve corporate governance practice and performance of banks.

2.2 Research framework

On the face of it corporate governance appears to be a field that does not affect the growth and profitability of firms. Understanding how boards work is not a simple task, however if grasping on how an individual will behave is difficult, the complexity involved in understanding how a group goes about overseeing the operations of a bank is a daunting task argued (Nicholson and Kiel 2004: 442). Despite this complexity, the health of companies, economies and society rely on people understanding how boards can influence firm performance.

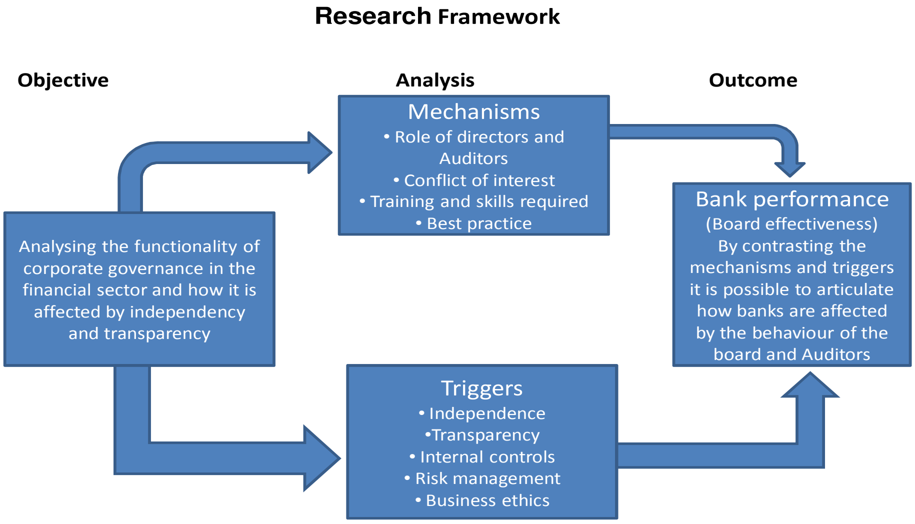

Chart 2.1: Developed for this research

The research framework was used to direct the research process, which assisted in the identification of mechanisms and themes that affect the governance processes of banks. The researcher was able to define and identify the most important stakeholder in the governance process. Triggers which have a positive and negative impact on the performance of the banks were analysed on the conceptual framework.

2.3 Recapping research questions

As a result of the literature review (Document 2) and the conceptual framework below, the author had to revisit the research questions, which will be answered in this document:

1. What is the role of NEDs and IDs in owner managed banks?
2. How are NEDs and IDs affected by conflict of interest in executing their duties in order to meet shareholder expectations while maintaining their independence?
3. What are the factors that shareholders take into account when considering the existence and effectiveness of Corporate Governance?
4. How will training and accreditation of directors create shareholder value and impact on Corporate Governance in the financial service sector?
5. What is the role of auditors in creating shareholder value and transparency?

2.4 The Conceptual Framework

External and internal mechanisms that influence the behaviour of directors were identified. Most of the mechanisms are positive mechanisms that influence the effectiveness of directors. There are mechanisms which when triggered causes negative behaviour by directors, which are management interest, audit fees, and conflict of interest. These will be analysed during the research in order to assess their effect on the performance of directors.

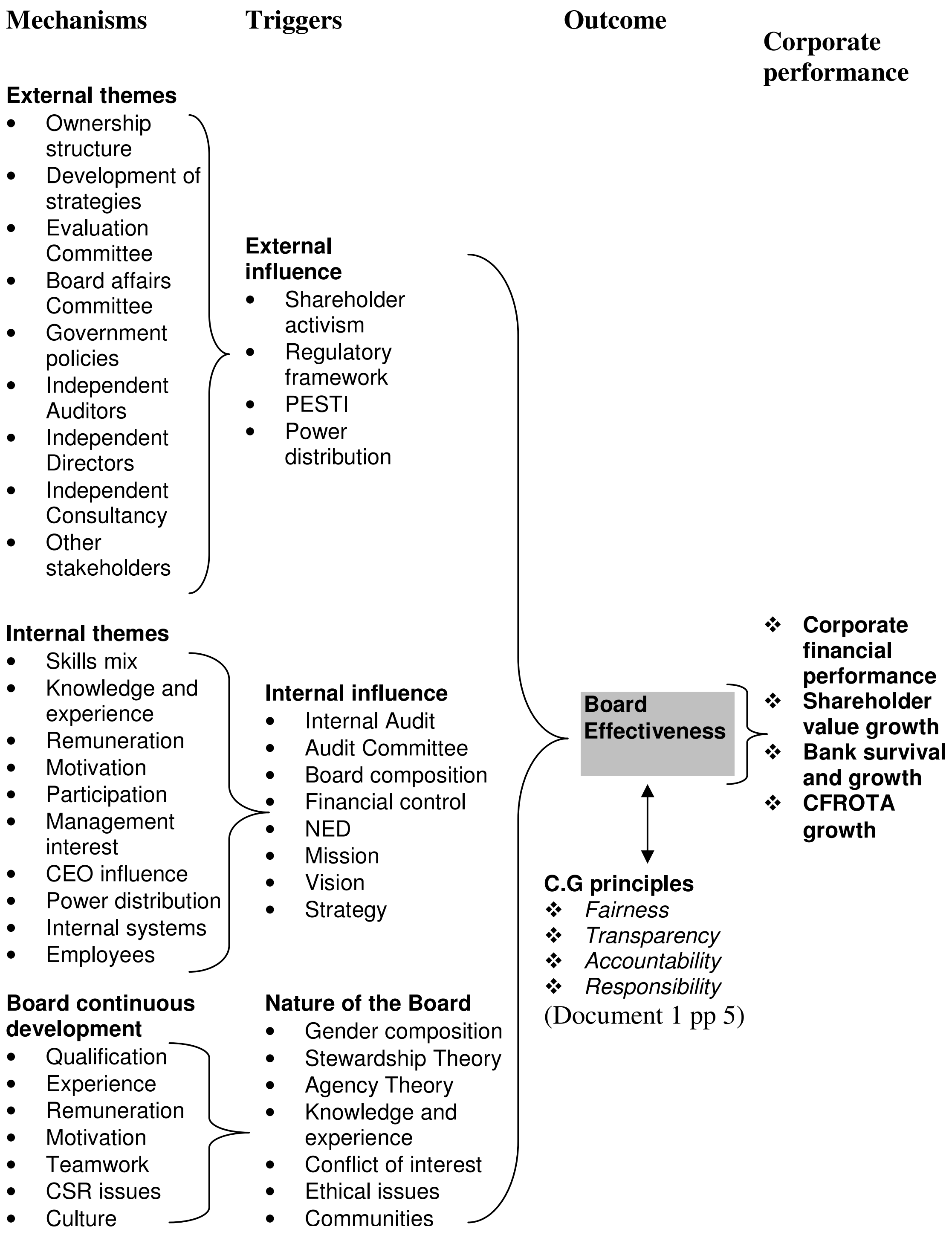

***Chart 2.2*: Board Effectiveness Model**

3 Financial Sector Setup

This chapter provide a contextual account of the banking industry in SA and Zimbabwe which is the location for this study. The structure includes all the players in the financial sector that is public banks, family banks and regulators like the Central Banks, Financial Services Board and the Stock Exchange to mention but a few.

3.1 South African Financial Sector Industry Structure

The SA financial services industry, which includes banks, assurance, insurance and wealth management companies represents 27, 4% of the value of all listed companies on the JSE and ZSE as at 31 March 2005 www.jse.co.za A number of developments have continued to shape the global financial services industry. Significant developments in Southern Africa had to be adapted to a lower inflation and interest rate while in Zimbabwe it was the opposite. Competition intensified, customer sophistication increased and regulatory challenges increased compliance pressures. Major events in the sector during 2005 were – Barclay's acquisition of ABSA and major BEE transactions were announced in the sector.

South Africa's financial services sector, backed by a sound regulatory and legal framework, is efficient, boasting dozens of domestic and foreign institutions providing a full range of services - commercial, retail and merchant banking, mortgage lending, insurance and investment www.southafrica.info. The banking sector compares favourably with those of industrialized countries. Foreign banks are well represented and electronic banking facilities are extensive, with a nationwide network of automatic teller machines (ATMs) and internet banking facilities available. The Financial Services Board oversees the regulation of financial markets and institutions, including insurers, fund managers and broking operations but excluding banks, which fall under the South African Reserve Bank.

3.1.1 South Africa banking system

The South African banking system is well developed and effectively regulated, comprising a central bank, a few large, financially strong banks and investment institutions, and a number of smaller banks. Many foreign banks and investment institutions have set up operations in South Africa over the past decade. The Banks Act is primarily based on similar legislation in the United Kingdom, Australia and Canada argued (Swamy and Tavlas 1995: 165).

Although no formal agreements have been concluded towards a consistent international position in the area of banking regulation, there have been amendments to exchange controls as well as financial market legislation, making South Africa an attractive investment prospect argued interviewee 36. The National Payment System Act of 1998 was introduced to bring the South African financial settlement system in line with international practice on settlement systems and systematic risk management procedures. The Act confers greater powers and duties on the SA Reserve Bank in respect of providing clearing and settlement facilities, www.resbank.co.za .

The Payment Association of South Africa, under the supervision of the Reserve Bank, has facilitated the introduction of payment clearing house agreements. It has also introduced agreements pertaining to settlement, clearing and netting agreements, and rules to create certainty and reduce systemic and other risks in inter-bank settlement. These developments have brought South Africa in line with international inter-bank settlement practice and best practice, which has resulted in the sector not being affected by the current (2008) financial crisis. Investment and merchant banking remains the most competitive front in the industry, while the country's "big four" banks - Absa, First National Bank, Standard Bank and Nedbank - continue to consolidate their grip on the retail market stated interviewee 38.

3.1.2 South African Reserve Bank

In 1985 a department for bank supervision was created in the Reserve Bank to monitor the foreign activities of South African banking institutions. With this step South Africa confirmed its support of the Basle Concordat of June 1983, in terms of which central banks undertake to extend their supervisory activities to include the international activities of banking institutions to facilitate closer co-operation between the supervising authorities (www.reservebank.co.za). This reduced the exposure of the banks to USA mortgage lending system except Old Mutual which has incurred huge losses in America (Old Mutual 2008 Financial Statements).

Following recommendations made in 1985 by the De Kock commission of inquiry into the monetary system and monetary policy in South Africa, the functions of this department were expanded to include supervision of the domestic activities of all banks - a task previously performed by the Registrar of Financial Institutions. An office headed by the Registrar of Banks, operating as part of the Reserve Bank, is responsible for registering institutions as banks or mutual banks as well as enforcing all the requirements of the Acts and corporate governance issues stated interviewee 38.

The registrar acts with relative autonomy in executing his duties, but has to report annually on his activities to the minister of finance, who in turn has to table this report in Parliament. The extent of supervision entails the establishment of certain capital and liquidity requirements and the continuous monitoring of institutions' adherence to legal requirements and other guidelines.

The performance of an individual institution is also monitored on an ongoing basis against developments in the relevant sector as a whole. If deemed necessary, inspectors can be appointed to inspect the affairs of any bank, or any institution or person not registered as a bank if there is reason to suspect that such an institution or person is carrying on the business of banking argued interviewee 38.

3.1.3 The JSE Ltd

The JSE Limited is the 18th largest exchange in the world by market capitalization (some R3.3-trillion as of September 2005) (www.jse.co.za). With approximately 400 listed companies and a market liquidity of 31.2% (September 2005), South Africa's exchange is only marginally smaller than Stockholm's and larger than no fewer than nine exchanges officially classified as "developed".

World-class systems allow the JSE to offer leading technology, surveillance and settlement on a T+5 basis. The JSE is an essential cog in the functioning of South Africa's economy, providing an orderly market for dealing in securities and thereby creating new investment opportunities in the country and enforcing corporate governance practices argued interviewee 38.

The JSE's main function is to facilitate the raising of capital by re-channelling cash resources into productive economic activity, thus building South Africa's economy while enhancing job opportunities and wealth creation. In addition, from a derivatives perspective, the JSE provides an effective and efficient price determination facility and price risk management mechanism. The JSE offers investors the choice of four markets, www.jse.co.za :

- An equities market, including stocks from the Main Board and the small to mid-cap Alternative Exchange.
- An interest rate market.
- An active financial derivatives market.
- An agricultural products market

3.1.4 Zimbabwe Financial Sector

Zimbabwe's banking and financial infrastructure is highly developed www.rbz.co.zw. The Reserve Bank of Zimbabwe is the central bank and carries out functions normally associated with such institutions. The balance of payment pressures and macro-economic instability which persisted in 2001 and saw a widening of the parallel market for foreign exchange prompted the government to reintroduce exchange control regulations. All persons in Zimbabwe must use the official exchange rate when transacting in foreign exchange argued interviewees 35 and 37, which is not the case. The opposite is true. Authorized dealers in foreign exchange must surrender 50 percent of all export proceeds to the Reserve Bank (www.rbz.co.zw). The holiday travel allowance for residents has been reduced to US$1,000 per annum. The Bank allocates the foreign exchange, mainly to the National Oil Company of Zimbabwe and to the Zimbabwe Electricity Supply Authority as they are the national energy providers and critical economic drivers argued interviewee 35.

All external loans must now be submitted to the ELCC for approval. In the 2003 Budget, the government announced that Bureau De Change were to be abolished, effective November 2002, which was done. By December 2002, 14 commercial banks and five merchant banks were operating in Zimbabwe. The four major banks are among a few mature banks and are subsidiaries of SA banks and report to South African shareholders. There are seven finance houses which specialize in leasing and hire-purchase financing requirements of the private sector. In addition, five building societies offer mortgage finance, while the Post Office Savings Bank, under the auspices of the Post and Telecommunications Corporation, has an asset portfolio consisting of gilts and semi-gilts. The State-owned Agribank provides agricultural loan financing similar to Land bank in SA, stated interviewee 37.

The Zimbabwe Credit Insurance Corporation underwrites political risk and commercial risk. Other risks underwritten by the Corporation include insolvency of buyers, non-payment of undisputed debt by buyers and failure or refusal by the buyers to accept delivery of goods. Over 60 direct insurers, professional re-insurers and insurance brokers operate life and non-life funds. The banking sector has been deregulated and interest rates are now market determined. The financial reforms have introduced dynamism to the banking sector and new service and financial instruments have emerged. Commercial banks have introduced international credit cards in line with international banking practice argued interviewee 35.

3.1.5 The ZSE

Boosted by a decline in rates of return on the money market at the beginning of 2001, activity on the Zimbabwe Stock Exchange (ZSE) remained firm during 2001 and has since declined to unprecedented levels www.zse.co.zw. The negative real returns on the money market resulted in a shift of investment resources to the equity market, which drove up share prices. Surprisingly during the world financial crisis (2008) the ZSE was the only SE which gained while the leading markets lost over 50% of its value argued interviewee 35.

The ZSE is one of the oldest and most vibrant stock exchanges in Africa, having been established in 1890. However, trading was sporadic until 1946. At the time of this report, it had 73 companies listed. Its operations are governed by the Stock Exchange Act. The listing requirements are equivalent to those employed by other SADC member States. It is currently rated as one of the worst performing stock exchanges in Africa.

During 2001, eight new companies listed on the ZSE, mainly on the financial and retail counters, contributing to increased activity on the stock market. Market capitalization rose to Z$3,597.04 billion (R1, 027.7 million using bank rate) by the end of 2001. The ZSE is open to foreign investors. Foreign investors can purchase up to 40 percent of the equity of any company listed on the ZSE. Single investors can acquire a maximum of 10 percent of the shares on offer. Foreign investors can invest on the local money market up to a maximum of 25 percent per primary issue of government bonds and stocks with a single investor acquiring a maximum of 5 percent. Foreign investors are still not permitted to purchase from the secondary market. These investments qualify for 100 percent dividend and interest remittance. Broking firms offer comprehensive advisory services on local and foreign markets.

The government is amending the Stock Exchange Act to make it more responsive to new market conditions and to introduce transparency. The stock market is looking for Z$120 million (R8 million) to establish a computerized central depository system that would eliminate the need to use share certificates and also play a major part in improving the security of the share trading system, but is facing foreign currency problems.

3.1.6 Summary

The four major banks under review in this research operate in both countries South Africa and Zimbabwe. The head offices are based in Johannesburg, while listed on both stock exchanges (JSE and ZSE). All the banks comply with the (King 11 Report 2002), Code of best practice, Banking Act and respective Companies Acts as this is a requirement by both JSE and ZSE. The listing requirements are part of meeting the requirements of the King 2 Report (2002) and code of best practice. Once a bank is listed, the reporting requirements improve so that all stakeholders receive similar information at the same time in order to avoid insider trading.

Structure of banks and their subsidiaries

South African Banks	**Zimbabwean banks (Subsidiary Banks of SA banks)**
ABSA	Barclays
FirstRand (First National Bank)	Commercial Bank of Zimbabwe (CBZ)
Nedbank	MBCH Bank
Standard Bank	Stanbic Bank

Table 3.1: List of banks under research

4 Review of key issues raised by research questions

Chapter 4 is an attempt to analyze the research questions highlighted in Chapter 2 taking cognizant of the research objectives and the contributions by the different researchers during the literature review (document 2).

4.1 What is the role of NEDs and IDs in owner managed banks?

Owner managed banks are banks that have not reached the maturity level (being listed on the JSE, ZSE, LSE, NSE etc) and are managed by the promoters or promoters have direct influence in the day to day running of the bank. Maturity of a bank is defined as its ability to be listed on a stock exchange and attracting public investors to buy shares in the bank after meeting all the requirements for listing. The author will not be dealing with business growth models as defined by Churchill and Lewis (1983) or Greiner (1972) as these are not the type of maturities the researcher will be discussing. Most banks in SA and Zimbabwe failed before their maturity level due to undue influence from the owners.

NEDs and IDs are appointed by the owners of the bank. They are supposed to bring in their expertise and business acumen-ship to the bank. In a similar relationship explained below their independence is affected in that they derive income from the bank (Diagram 6.1: 54). They also expect the bank to fund their businesses bringing in the issue of divided loyalty (conflict of interest). Appendix 1 of document 1 analyzed the banks that failed; most of them were still not listed (public banks). What was clear was that the IDs and NEDs did not do what they were supposed to do (fiduciary duties) as they are influenced by the owners.

The Reserve Bank Governor of Zimbabwe stated that, owner managed banks fail, due to breach of corporate governance code of best practice through abusive insider and related party transactions, poor risk management systems and engaging in non-core speculative activities (www.resbank.co.za and www.rbz.co.zw). As a result of issues above, the Lebanese Government introduced the Lebanese code of best practice (2006) in order to regulate SME and family business as their non compliance to best practice was affecting revenue collection and fraudulent reporting. The collapsing of these banks was as a result of the failure by the Central Banks to monitor compliance in the banks, which shows the failure of the legal system in the financial sector argued interviewee 37.

NEDs and IDs are appointed by the owner hence have to succumb to undue Shareholder influence. Their role then is not independent and the auditors fall in the same category otherwise they will be removed from office argued interviewees 3, 15 and 19. Appendix 1: document 2 shows why these banks failed. Minority shareholders are affected by poor corporate governance practices in owner managed banks argued interviewees 18, 33 and 34.

NEDs and IDs are also expected to bring in business through their influence in the market as they are executives of big corporations. Through this expectation, NEDs and IDs are important elements in the success of the bank as well as effectiveness of the board. In retrospect IDs have their own expectations (Diagram 6.1: 54) that they will influence the bank to provide finance for their businesses bringing in the issue of conflict of interest (CG paradox). Independence seems to be affected by the conflicting loyalty, hence negatively affecting the themes on the conceptual framework.

4.2 How are NEDs and IDs affected by conflict of interest in executing their duties in order to meet shareholder expectations while maintaining their independence?

IDs and NEDs are individuals selected mostly by major shareholders to sit on the board as a result of their professionalism, skills, experience, business acumen-ship, and relationships with shareholders. They represent the interests of the shareholders. They are however affected by divide loyalty as they have their own interests which may be different from those of the principal.

Agency relationship is a situation where an individual, (the shareholder) engages another person, (the NED or ID) to perform service/s on his/her behalf (Jensen and Meckling 1976: 305 - 360). The principal delegates some decision-making authority to the agent (Damodaran 2002). Document 1, states that managers are capable of putting their own interests above those of bondholders and stakeholders, delaying bad news or providing misleading information to the financial markets, and incurring significant social costs on society, (WorldCom and Enron cases 2002) not all of which can be traced back to the firm (Damodaran 2002). The dilemma mentioned on 1.2: 4 and Diagram 6.1: 54is the route of the CG problem as conflict of interest results from the level of income derived from the services being rendered.

Level of income affect one's performance and time spend on bank's business argued (advocate Myburgh 2003). Agency theory argues that the major role of the board is to reduce the potential divergence of interest between shareholders and management, minimizing agency costs and protecting shareholder's investment, argued (Eisenhardt 1989: 57) yet they are also not well remunerated. This issue triggers negatively the mechanisms on the conceptual framework (Appendix 3) resulting in information asymmetry affecting transparency.

NEDs and IDs are business people whose interest is to create their own wealth (Diagram 6.1: 54), while the bank needs the directors to bring business to the bank through their influence in the market. While these directors are expected to add value through their influence in the market and Government, they have their own interest to get funding from the bank affecting the major theme of this research which is independence. This is the question the author rose in trying to find out whether these directors add value to the bank.

Although NEDS and IDs are affected by the factors discussed above, they have a professional obligation to execute their responsibilities. The argument is that independence is within individuals; hence their appointment to the board is evidence of their professional conduct and responsibility. It is therefore true that their experience and professional conduct are the attributes that assist the bank in creating shareholder value and transparency. This background therefore assists these directors as to how they behave and conduct themselves when exercising their independence or fiduciary duties.

4.3 What are the factors that shareholders take into account when considering the existence and effectiveness Corporate Governance?

Institutional investors have grown in power and influence during the last few years and have exerted tremendous influence on the companies in which they invest (Webb 2002: 67). Investors are willing to pay a premium of up 27% when investing in a well-structured organization argued, (Garratt 2003, Kakabadse 2002 and Frederikson 1992). Well-structured organization means an organization that observes best corporate governance practices. The reputation and governance of corporations translate into a "governance premium," which (McKinsey and Company 2002) measured and found that it translates into higher price/earnings ratio and other improved metrics, (Levitt 1999, Howell and Hibbard 2002: 7).

Concluding that adherence to best practice of good corporate governance will help to improve the confidence of investors, may reduce the cost of capital and more stable sources of capital (OECD 1999). The author agrees with these researchers as well governed banks are attractive to investors for example the acquisition of ABSA by Barclays Plc in 2005 and Standard Bank by Industrial and Commercial Bank of China (ICBC) in 2008.

4.4 How will training and accreditation of directors create shareholder value and impact on Corporate Governance in the Financial Sector?

Matching the competencies and behavioural characteristics of individual directors to the strategies followed by a bank is the key to designing a better board, argued (Leblanc and Gillies 2005: 223). Boards are built around three components that affect the manner in which boards make decisions which are: "the competency of directors, the behavioural characteristics of directors and the strategy that the bank is following (the decision making process). The business environment is always changing; boards are not static structures, hence companies need to implement the C-B-S-R model in an endeavour to develop effective boards. The C-B-S-R model is a model that looks at the competency, behaviour, strategic development process and the recruitment process that brings in directors with capacity to manage change. Meeting and aligning all these varying needs – C: *competency*, B: *behaviour*, S; *strategy* and R: *recruitment* – when building a board is somewhat like solving a simultaneous equation or solving a puzzle. People being appointed to boards are successful business people, academia, but needs to be inducted into the business of the bank and be able to adjust to these changes argued (Advocate Myburgh 2003) as it is difficult to find board members with both behaviours on the C-B-S-R model.

Until we see the board's role being professionalized and the supremacy of the board being reasserted, we shall not restore full shareholder confidence in business, public leaders or the markets, argued (Garratt 2003: 1). Private equity partnerships are primarily concerned with the strength of the management team of the respective companies, argued (Millson and Ward 2004: 81). This indicates that director knowledge and experience is important in influencing investors' decisions. Trained directors are governed by their institutions' ethical beliefs, hence compelled to follow the codes of conduct, which will result in following the codes of best practice. This knowledge adds value to the bank argued interviewee 18. Training and induction as a theme is an important attribute defined by the conceptual framework as a factor that improves reporting and transparency. Impact of collegiality is reduced when directors are properly inducted and trained argued interviewees 35 and 37.

4.5 What is the role of Auditors in creating Shareholder value and transparency?

Right now, the USA is suffering from the aftermath of hubris. All of the triumphalism of the 1990s, 2000s and the current sub-prime mortgage crisis 2008/9 – GAAP as the supreme accounting language (used by Auditors), governance as the global preference, competitive performance as the wonder of the world – has turned to ashes out of concern that trust has been destroyed argued (Monks 2003: 164). It is not only a concern with certain renegade companies such as Enron, WorldCom, Global Crossing, Tyco, BCCI, AIG, Lehman Brothers but a concern for all companies. The "best" companies in the USA used accounting practices that, with hindsight, appear dubious at best and criminal at worst argued (Monks 2003: 164).

Auditors are important stakeholders in the corporate governance matrix; they are expected to bring in their expertise and knowledge of business to the bank. The main task of auditors is to monitor the directors' performance in discharging their duties and that annual audit is one of the cornerstones of corporate governance argued (Cadbury 1992 and Melis 2004: 77). While this should be the case, (Adams *et al* 1997: 69 – 86, O'Sullivan 1999: 253 – 263, O'Sullivan and Diacon 1994: 70 - 84), disagreed with Cadbury and Melis that audit costs have become so exorbitant compared to the value they bring to shareholders which creates a negative trigger on the conceptual framework. Mechanisms that cause negative triggers are those themes that do not promote the effectiveness of directors or reduces shareholder value. The constant increase of audit fees is a cost that has not been matched to shareholder value creation. They advocated that stronger internal corporate governance mechanisms, board structures and experience are important for transparency than to put reliance on auditors as defined by the themes on the conceptual framework.

Markets have been brainwashed to believe that auditors are relevant, independent and that they add shareholder value yet they seem to be an unnecessary expense, argued (Bazerman *et al* 1997, Turnbull 2006: 1 and O'Connor 2002/04/06). During the research it was clear that banks cannot do away with auditors as they are important triggers in the governance process, but their relevance is still subject to further research although there was a general agreement that audit committees and internal audit can play a more assuring role than external auditors.

4.6 Analysis of research themes

The field of corporate governance research needs to change based on the relationship between governance structure and corporate performance argued (Leblanc 2004: 436). For businesses to survive, the need for strategic flexibility is paramount. A crucial element in determining whether a business can achieve the requisite flexibility is the quality and effectiveness of its board of directors and the system of corporate governance in which the organization operates stated (Taylor et al 2001: 2). The Cadbury report on financial aspects of corporate governance discusses the importance of board effectiveness and states that, "tests of board effectiveness include the way in which the members of the board as a whole work together under the Chairman, whose role in corporate governance is fundamental and their collective ability to provide both leadership, checks and balances which effective governance demands" (Cadbury 1992: 20).

Based on these requirements, Document 1 developed the concept of resource utilization, which triggers the enablers (mechanisms), that pushes the drivers in order to achieve organizational efficiencies (value creation). The CG ecosystem demonstrated the flow of events for the bank to realize its full potential through governance policies, legislation, director training, transparency, equity participation and independence.

Relationship between board and director effectiveness

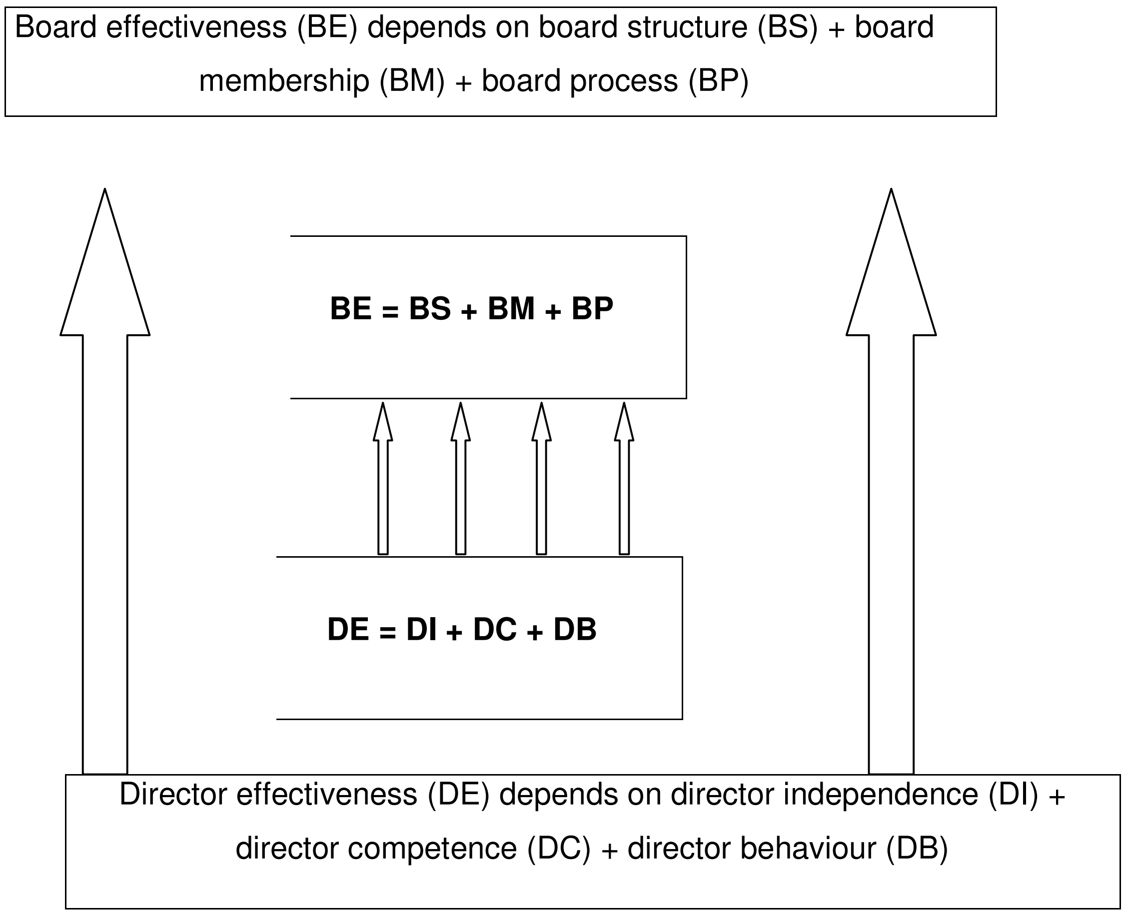

Chart 4.1: Adopted from Leblanc and Gillies (2005)

The literature review unpacked the knowledge developed so far, which suggests that listed banks attract experienced executives who, by virtue of the nature and their role, have detailed specific knowledge resulting in the author developing the conceptual framework on page 10. Key to resolving the current global crisis is to induct, train and appraise directors as true professionals and accept the intellectual, moral and behavioural consequences of this, which answers the research question, why there is need to train board members, which are the attributes that enhances board effectiveness stated, (Garratt 2003: 1) and (Chart 3.1.3: document 2).

So many exogenous factors impact on the financial performance of a bank, *neither effective nor ineffective* governance may be neither necessary nor sufficient condition to ensure positive or negative financial performance. Majority of the studies of corporate governance have not been able to show a casual relationship between the structure and the form of boards and corporate financial success (Chart 4.1). Common sense suggests that there is a positive relationship between the two and this research strongly indicates that the connection may be found by studying board processes. An effective board depends upon the existence of appropriate board structure, board membership and board process argued (Leblanc and Gillies 2005: 157). Since decisions are made by people, it is the people on the board – the directors and their behavioural characteristics, plus the manner in which they interact (social behaviour) among themselves – who determine the decision-making process. Board effectiveness is deeply linked to the behavioural characteristics of the directors (Chart 4.1)

A good deal is known about the necessary qualities required of board members with respect to the question of independence? Less in known about the competencies that directors must have in order for them to be an effective board. Almost nothing is known about the behavioural characteristics of directors. It is the success or failure of board processes that is a major factor in determining the board's effectiveness. Anyone who has ever been a member of any group charged with making decisions knows that there are many differences in the way in which members act – some are aggressive, others passive, some are always prepared for a meeting, others never, some are anxious to find solutions to problems, others will use pretence to delay a solution argued (Leblanc and Gillies 2005: 158). Boards of directors are no different than any other small groups, but because they meet in private, all that is known about the manner in which they make decisions is based on the revelations and reminiscences of individual board members.

Accounting irregularities, level of knowledge, corporate corruption, fraud, agency costs, and inadequate disclosure practices have significantly affected corporate performance resulting in high profile corporate failures observed, (Taylor 2003: 156, Hendry and Kiel 2004: 500), which are the results of board behavioural characteristics. During the interviews, two schools of thought (Active and Passive) will be tested and will test the power of CEOs in the banks as a result of how banks have been performing over the years. There is an element of both passive and active schools of thought but more of the later argued (Davis and Thompson 1994, Hendry and Kiel 2004, Walsh and Seward 1990, Finkelstein and Hambrick 1996).

The author established that the sector is heavily regulated that there is not much boards can do to add value hence considered this sector as a sector where directors are limited to show case their entrepreneurial expertise. Executives gained reward power as a result of rendering IDs and NEDs ineffective. The research questions here address the themes highlighted by the conceptual framework, which will be investigated and answered by the respondents on Chapter 6.

4.7 Summary

The CEO is the driver of the success of the bank while the Chairman is accountable to the activities of the bank. The Chairman is mandated to report and inform shareholders and different stakeholders on the performance of the bank as indicated by the conceptual framework. Board induction and training are the most important attributes for an effective board Chart 4.1.

Section 4,4 highlighted the distribution of power and responsibilities between the principal and the agent. The agent has the power of information which can be used to the agent's advantage that is if information is delayed or provide misleading information to shareholders. Shareholders takes cognizance of different factors when looking for banks to invest in, which include board experience, composition, historical performance, share price and skills level to mention but a few.

Sections 4,2 and 4,3 deliberated on the role of auditors, NEDs and IDs, which was found to be a requirement of any board in order to have a strong corporate governance structure. The major problem is the increase in audit fees and divided loyalty, which may result in conflict of interest. Section 4,6 highlighted some of the triggers (director training, equity participation, independence and legislation), which assist in the bank having strong corporate governance structure and processes.

An effective board has the following themes as its vision, stewardship, experience and knowledge, financial control and shareholder participation. These attributes are important in triggering mechanisms that push for an effective board that result in better bank performance and transparency. An experienced board makes the structures of the bank functional, resulting in sound internal controls and disclosure. Banks that have not matured are very risk, hence do not attract international and corporate investors until such time that they are listed. Listed bank means that the bank now complies with the code of best practice, Companies Act, JSE listing requirements and the King 11 Report (2002). These assertions will be confirmed in Chapter 6 by respondents.

5 Methodology

5.1 Context

The medicine for researchers is for them to make their intentions known from the beginning stated (Miles and Huberman 1994: 4). The author considers himself as realist, but “realism” has come to mean many things coined (Miles and Huberman 1994: 4). The lineage of “transcendental realism” discussed by (Bhaskar 1978, 1989, Harre’ and Secord 1973, Manicas and Secord 1982: 390), which states that social phenomena exist not only in the mind but also in the objective world and that some lawful and reasonably stable relationships are to be found among them. The lawfulness comes from the regularities and sequence that link together phenomena. The fact that most of those constructs are invisible to the human eye does not make them invalid argued (Miles and Huberman 1994: 4).

Human relationships and societies have peculiarities that make a realist approach to understanding them more complex – but not impossible. Unlike researchers in physics, realists must contend with institutions, structures, practices, processes and conventions that people reproduce and transform argued (Miles and Huberman 1994:4). Social phenomena, such as language, decisions, conflicts and positions exist objectively in the world and exert strong influences over human activities because people construe them in common ways. Although the researcher agrees with interpretivists, the researcher affirms the existence and importance of the subjective, phenomenological and the meaning-making at the centre of social life. The research does not use deductive logic of classical positivism or covering laws, but register and transcend these by building theories to account for real world that is both bounded and perceptually laden stated (Miles and Huberman 1994: 4). The author aims to account for events for the period 2002 to 2006, rather than to document their sequence, and look for specific activities, mechanisms, social processes and structures that can be captured to provide a causal description of the factors that influence the conduct of directors in the financial sector.

This research focuses on developing theory from empirical data because the document focuses on developing countries and the literature discussed in document 2 is not necessarily appropriate to this environment. The nature of the relationship between theory (document 2) and research (document 3 and 4), where theory is guided by research will be the focus of this document. The importance of adopting a suitable research approach is vital, as far as the contemporary researcher is concerned, for ensuring comprehensive, valid and practical outcomes. Nevertheless, in any research, care must be taken to ensure that the approach followed is so structured as to provide a solid link between concepts and data (Punch 1998). The two main types of research paradigms (Easterby *et al* 1991) are:

- Positivist or scientific
- Non-positivist or phenomenological

There are many other variations in between that form a continuum from one extreme to the other (Ticehurst and Veal 2000: 19) Chart 5.1.

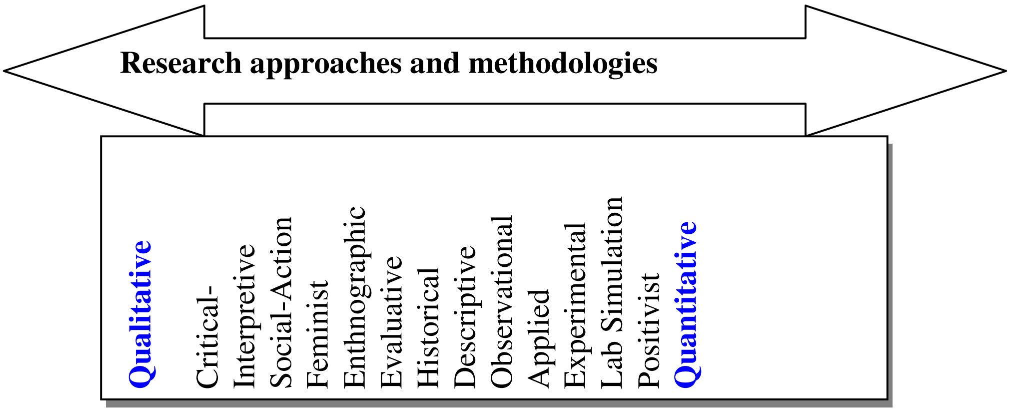

Chart 5.1 Source: Ticehurst and Veal (2000)

There are various methods within each research domain but they broadly fall within two categories:

- Qualitative (non-numerical, which is this document)
- Quantitative (generally numeric, which is document 4)

Qualitative research, views humans as complex and unpredictable, that is they are less stable than the physical world. Central to the idea of qualitative research is the development of a deep understanding of human behaviour to real people's values, interpretive schemes and belief systems argued (cavana *et al 2001)*

The author will use an inductive epistemological approach (theory generated from research: Chart 5.2) as some theories do not apply to emerging markets. This does not mean that theoretical issues will be ignored in preference for the purely empirical findings from this research. Theory is often used in a manner that involves little more than doing the background literature review in a field of research, argued (Fielder 1967, Willmott 1990, Sackmann 1992 and Bryman and Bell 2003, Saunders et al 1997). Often research is based on empirical evidence without any acknowledgement of social theories that affect political realities of organizations. Researchers should not hypothesize as an inductive research methodology develops the unknown into new knowledge hence the author has chosen this approach (Sackmann 1992: 343).

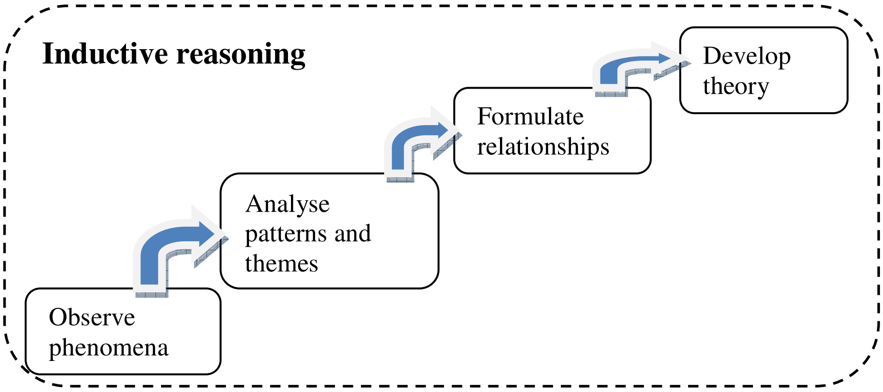

Chart 5.2: Developed for this research

The epistemological realist believes that universals have a reality that is independent of how people talk about them, hence concepts we use when talking about management can be real, argued (Fisher 2004). Epistemological realism is the belief that the structure of the real world is “cognitively accessible” to those who investigate, coined (Johnson and Duberley 2000). Realism will be a tool the researcher will use in this document, (which is not interpretive) and will not seek to understand the sense making process.

This approach accepts neither a constructionist nor an objectivist ontology and instead takes the view that social world is reproduced and transformed in a daily life argued (Bhaskar 1989: 4). Adoption to changing world is the reason why the researcher chose this method among other methods. The objective is to recognize the reality of the natural order, structures, events and discourses of corporate governance. These structures are not spontaneously apparent in the observable pattern of events; they can only be identified through the practical and theoretical work of practitioners, argued (Bhaskar 1989: 2).

It is predicated upon the view that a strategy is required that respects the differences between people and the objects of the natural sciences and therefore requires researchers to grasp subjective meaning of social action argued (Bryman and Bell 2003: 16). This argument denotes an alternative to the positivist orthodoxy that has held sway for centuries that people are independent argued (Turbull 2006: 1). The positivist thinking that has tendered to characterize other studies of leadership, by arguing that effective leadership relies on the management of subjective meaning has been challenged by Grint (2000). The skills of leadership involve shaping the way that organizational problems are defined and persuading others that this definition is correct; hence the researcher took this approach.

5.2 Research Methods

Explorers travel into the unknown territory. Their mission is to make the unknown known and make the strange familiar to those who read their books of adventure, argued (Fisher 2004: 127). The study follows the classical form of research known as realist epistemology and ontology theory using realism and inductive approach (Chart 5.2). Corporate governance theory was generated from organizational set up where the structure was the separation of ownership and management.

This research is based on participant observation (attending ABSA board meetings (4 meetings attended lasting 2 hours each), reading board minutes and refer 5.2.1), elite interviews, social mapping (sociometrics) Diagram 6.1: 54, open ended unstructured questionnaires and desk research methods as standardized questionnaire was used to allow comparison of banks. Huberman and Miles (1994) defined the inductive approach where data collection started without an initial formalized theoretical framework, but the theory was developed through observation and situation analysis. The researcher is attempting to open the corporate governance black box (social world and phenomenology) through unpacking the norm.

The research focuses on the purpose of the findings and matches that to the conceptual framework so that researchers and practitioners in this field will be introduced to the bigger picture of corporate governance. Public documents were used as sources of information (published financial statements). Predominantly the research's emphasis is on change, action and development of new knowledge making it an action research, (Parker 1994).

5.2.1 Research design

A useful model of research design process was developed by Cavana *et al* (2001) which the researcher followed in this document and document 4. The model was used as a tool to remain focus and address the themes discussed by the research questions.

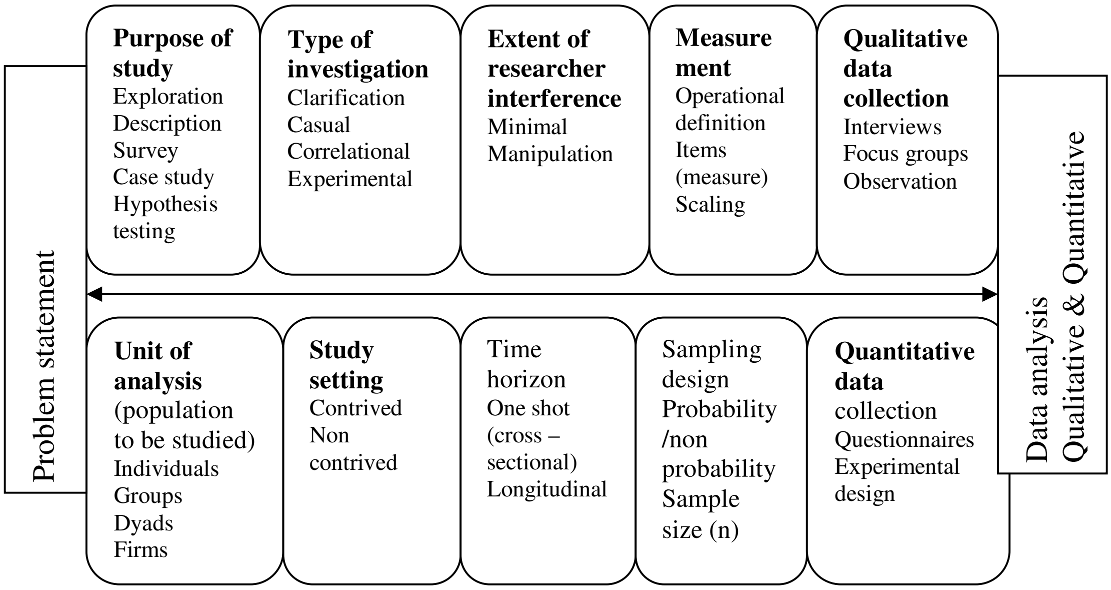

Table 5.3: Source: Cavana *et al* (2000)

5.2.2 Data collection methods

a. Participant observation

Participant observation is a method for systematically observing the behaviour of individuals or organizations in terms of a schedule of categories argued (Bryman and Bell 2003: 176). The author started observing the behaviour of banks (financial performance) during his studies for the Institute of Chartered Secretaries (2000) and MBA (2004), which he focused on governance and strategy. The researcher systematically started to analyse the performance of banks through financial analysis, attending board and executive meeting of banks as a researcher and observing growth or causes of failure. The idea was not to come up with quantifiable results but to observe how different board members participate in proceedings of board meetings, which results in how the bank's performance, where financial statements were used as tools for measurement. The banks include: SA (ABSA, Nedbank, TA Bank, Investec) Zimbabwe (Barbican Bank, Century Bank and Trust Bank) and on average each board meeting was scheduled to last two hours.

The author started with the analysis of Alpha Bank, BCCI (1991), United Merchant Bank (1995), Pretoria Bank (1999) and others until recently Fidentia (2007). The structure of the observations was focused on board meetings, AGM, strategy formulation seminars and preparation of financial statements. All these banks started with liquidity problems, excessive exposure concentration, directed lending, money laundering, related party transactions and weak shareholder activism. These were as a result of corporate governance failure, which resulted in these banks failing. Nedbank is among the banks that survived failure as a result of shareholder intervention in 2001.

b. Elite interview schedule

The researcher identified respondents based on their position in the bank they work for. The positions identified as important for this research were the Chairman, CEO, FD, NEDs, IDs and other CG practitioners, who have contributed immensely to this field. This was done so that the researcher can have an understanding of how all groups feel about the value addition model developed on the conceptual framework. Appendix 1 shows the profile of directors, practitioners interviewed including their profiles and each interview was scheduled to last an hour. These were recorded using electronic recorders, and then the data was transcribed using a professional service provider.

Interview Number	Date	Name	Organization	Title
1	2006/10/20	W R Somerville and his 3 Company secretaries	ABSA	Group Secretariat
2	2006/12/08	Dr S Booysen and J H Schindehutte	ABSA	CEO and FD
3	2007/03/15	Advocate Myburgh	Myburgh Attorneys	Partner
4	2007/06/12	T Dixon	IOD	Director
5	2007/05/10	M King	King & Partners	Managing Partner
6	2007/05/03	Dr R J Khoza	Nedbank	Chairman
7	2007/04/17	T Boardman and M Brown	Nedbank	CEO and FD
8	2007/01/18	P Mageza	ABSA	Executive Director
9	2007/05/24	S Nxasana	FNB	Executive Director
10	2007/02/13	G Gono	RBZ	Governor
11	2007/02/06	T Mboweni	SARB	Governor
12	2007/03/15	Dr C L Dhliwayo and N Ncube	RBZ	Deputy Governors
13	2007/03 27	Dr X P Guma	SARB	Deputy Governor

Table 5.4: Elite interviewee time table

As a result of the setup of the banks, which have their head offices in Johannesburg, most interviews were conducted in South Africa (Table 3.1 19). There are delegated officials in each bank who are allowed to interact with researchers and provide information due to confidentialities involved in the banking sector. The structure worked well for the researcher as he is resident in Johannesburg.

The nature of the study resulted in identifying the elite of the banks as the targeted interviewees, hence those selected to be interviewed were the directors. Policy makers and shareholders as they are the individuals who formulate strategies for the banks were the target. Out of 40 identified respondents, 15 interviews were conducted. As a result of unavailability of some of the interviewees 12 interviews were conducted through telephone or video conference. Themes identified included what happens behind the boardroom door, independence, transparency and conflict of interest.

The use of unstructured interviews (Appendix 2) allowed the researcher coverage of a wide range of topics that affect performance of directors. Interviewees were not confined to yes and no answer so that interviewees could express their opinion broadly with no limitation.

c. Desk research

Information on the success and failure of banks stretch over a long period, in this case since 1989 to date. Library, internet, documentary analysis and other public information were used to gather information on different bank performance together with those that collapsed. Some of the information on collapsed banks could not be obtained as they were not listed and no records are still available for such banks.

d. Social mapping (sociometrics)

All banks are associated in one way or another as evidenced by Table 5.4, where Bankserv (a payment settlement house) is owned by all banks. Banks as shareholders of other banks can exercise influence by setting prices as evidenced by the charges on loans, where all banks charge 3.5% above prime lending rate. Recently the Reserve Bank Governors were at war path with the CEOs of banks as the Governors feel that banks are over charging clients. This association influences how all directors of banks behave and their association preferences. The researcher analyzed the relationships caused by professional associations (1.0: 1 and Diagram 6.1: 54) as most of the board members in all the four banks are members of the ICA, IOD and admitted attorneys to mention but a few. Within any group members will have preferences for association with other members, of which, board members were asked to identify the qualities they would want other board members to have.

Each member preferred a member with the same background or of the same institution while a mixture of skills was also preferred. There is a strong positive correlation within institutions and their professions; hence most of the board members are chartered accountants or attorneys, who would want to associate with colleagues in the same profession (Diagram 6.1: 54). These associations have an impact on how information is disclosed to shareholders, which affect triggers on the conceptual framework that is transparency and independence.

The shareholding is made up as follows:

Absa Bank Limited	23,125%
FirstRand Bank Limited	23,125%
Nedbank Limited	23,125%
The Standard Bank of South Africa Limited	23,125%
Dandyshelf 3 (Pty) Limited*	7,5%

*Dandyshelf 3 (Pty) Limited is a consortium of banks, holding 7,5% shareholding in BANKSERV:

Bank of Athens; Citibank; Capitec Bank; Investec Bank; Mercantile Bank; Bidvest Bank and Teba Bank

Table 5.5: Association and collaboration of banks

5.2.3 Sample group construction

The population (page 13 and 29) from which the sample group was taken was classified as Chairmen (…. strategic direction of the bank), CEOs (… strategy execution), NEDs (... representatives of different shareholder groups), IDs (… professionals, business people and other stakeholder representatives), Financial Directors (… internal controls, financial information and reporting) and Company Secretaries (… custodians of registers, minutes, induction and training of directors and public officers) of each bank. Different sets of information were obtained from a different class, which assisted the researcher to focus on important roles played by each position in the bank. Cross bank analysis was easier as similar positions were cross referenced to each other. The classification of these respondents assisted the researcher in questioning respondents according to their role in the bank in addressing different themes.

Practitioners in the field were identified including M King (King 2 Report Chairman), Advocate J F Myburgh (Myburgh Report), Dixon director (IOD), Reserve Bank Governors and the Registrar of banks. The study was interview based research, where there was need for face to face discussion as the questionnaires were open ended. The total group sample was five groups from a population size of 40 respondents. The 40 respondents were put into groups for example all Chairman were one group, CEOs and FDs another and so forth. This size was considered to be representative of the population.

The elite sample (Table 4.1: 29) was directly selected as they would provide required information from each bank, while practitioners were selected according to their contribution to the field of study. The practitioner were Myvern King – Chairman of the King 1 and 11 Report, Advocate John F Myburgh – author and researcher of the Myburgh Report on the financial sector in SA and Tony Dixon – lecturer of CG and director at the IOD SA. Their understanding of the sector was important as they provided independent information on governance structures in Southern Africa.

Four major banks (ABSA, FNB, Nedbank and Standard Bank including their subsidiaries in Zimbabwe) participated in the research and the two Central banks (SARB and RBZ), who provided very important information on regulation, director training and compliance. The conceptual framework was not reviewed in order to test the themes discussed in document 2 in this research. Response rate was 46%, which was below expectation. This was as a result of unavailability of respondents and confidentiality of banks considering that the researcher works for one of the banks, hence directors from other banks were not willing to discuss any issues relating to their bank.

5.3 Morals and ethics

In this study, morals are not considered equivalent to ethics, despite this being the approach often adopted by many contemporary scholars. This study considers that view as misleading and often results in false debate. In this study, moral behaviour is defined as individual action that is considered *good* or at the very least *neutral* with respect to the *common good*. This definition is compatible with Bowie and Dunfee's (2002) definition that stated that individuals hold moral beliefs concerning social rights and wrongs. This definition also does not preclude group behaviour from being judged in moral terms (Trigg 2005; Soares 2003).

Ethics is a system or framework of agreed-upon rules for a community to live by; that may or may not be based upon moral considerations. When discussing business ethics, one cannot avoid discussing capitalism, and it is relevant to consider the moral philosophy of the father of capitalism, Adam Smith: Social ethics comes out of the moral or cultural concepts that help define society argued (Behrman 1988: 7). In this sense, ethics are seen as agreed-upon social rules, and morals are taken to be aspects of individual values underlying those rules. The definition is consistent with the definition .... (Delridge et al 2003) and also the view adopted for this study in which ethics are underpinned by moral values. Following the above, Table 5.5 below depicts the general view that lies under the approach taken in this study.

Relationship between morals and ethics

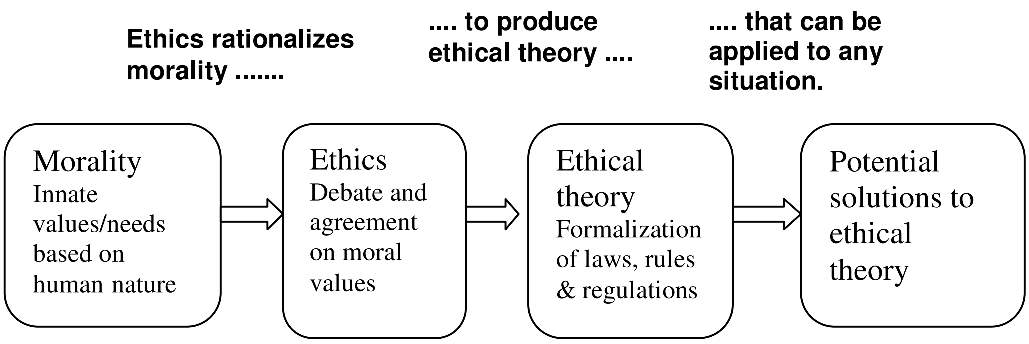

Table 5.6: Source: Adapted from Crane and Matten (2004: 12)

Financial sector is a heavily regulated industry with stringent ethical requirements, which includes client confidentiality and secrecy. This made it very difficult to get all the required information as some respondents could not divulge more information as stipulated by the banks' ethical conduct. Some could decline to participate on the interviews as they had to avoid saying what they might not be allowed to say. All interviewees allowed the researcher to disclose their names as they felt that there is need for more research to be done in the CG field and they would like to be part of that process.

5.4 Problems with participants

Participants were the elite of the banks. They are very busy people who are always difficult to get because of their busy schedules, which resulted in a lower respondent rate. Most of the NEDs and IDs are members of an average of ten boards besides being executives of other companies. It was difficult for them to spare time for the interviews.

Confidentiality was another constraint as only delegated directors are allowed to issue a statement on behalf of the bank. Regulatory and professional beliefs restricted the respondents' thinking as they could not accept an environment where auditor responsibilities are substituted by internal audit and Audit Committees.

5.5 Project constraints

As with many research efforts, there are often limits imposed by various factors outside of the researcher's sphere of influence. The fields touched upon in this study are potentially far-reaching, and it would require unreasonable effort and time to expand on all issues in the depth required to comprehensively explore all their links. There were some assumptions and compromises made, resulting in reasonable containment of the scope of the work:

- The study is not longitudinal, but cross-sectional.
- Gender issues are not examined.
- The nature versus nurture debate remains a contentious issue, and the assumption made here is that both play an important role; neither is viewed as dominant nor was any further argument attempted in this regard

- The roles of personal belief systems such as religion or socio-political orientation are also not considered
- The issues surrounding legislation are dealt with only superficially

The research covers two countries, which means the researcher had to travel for interviews, on arrival the meeting would be cancelled due to the directors' other commitments. Use of technology helped in a way as video and telephone conferencing assisted whenever the directors could get time. The major limitation however was bank secrecy, hence the researcher could not get all the information he wanted especially the technical aspects of how the banks are run and director appraisal systems.

Boards are dominated by formal processes, IDs and NEDs are exposed to executives through formal board presentations and in-depth strategic discussions are limited to annual or bi-annual events. The ability to monitor financial processes is restricted due to communication channels and time commitments.

5.6 Methods of analyzing data

There are two contradictory things people often discover about analysing unencoded research material. The first thing is *"the law of the missing middle,"* which states that students who move straight from collecting their research material to writing up the dissertation, thereby missing out the intermediate stage of sorting and sifting the material, tend to end up in a mess and muddle argued (Fisher 2004: 153). The sorting and sifting was one stage the researcher identified as necessary and important. Data was sort according to different banks and interviews were arranged in the same way.

There are devices that Riley (1996) recommended researchers to use which are, memorandum to self, keeping a researcher's dairy and imaginary letters to a friend. The researcher opted for the second recommendation in order to keep track of all events during the research. Interviewees were not coded as they agreed that reference would be made to their submissions as they feel that they need to contribute to the development of literature on corporate governance in emerging markets. Financial material was coded by bank name.

Content analysis of data from the banks and their financial statements was done to add quantitative element to the analysis of qualitative data. Excel was used to collate and analyze profiles of board members, association preferences, rank the banks and comparison of banks' performance.

5.7 Summary

The structure of the financial sector is a difficult environment for researchers due to confidentiality and availability of board members. Regulatory beliefs make the methods of research mentioned above difficult as interviewers may fail to achieve their objectives but this researcher was helped by the fact that he works for one of the banks under review. Public information, literature review and financial statements were useful in analyzing the field of study as not much could be obtained from the directors.

Methods of data collection selected by the researcher were useful in unpacking the system and adding value to the field of study. Most information was obtained from the practitioners like Advocate John Myburgh, Mervin King and Phillip Armstrong who are leading practitioners in the corporate governance field in SA. The two central banks provided much needed support for this project to be successful.

6 Findings and analysis

6.1 Key findings

The researcher discussed factors affecting CG in Southern Africa (Chapter 3) and world over with the interviewees in order to answer the research questions and enhancement of the conceptual framework. These include board effectiveness, processes, dynamics, transparency, independence of auditors, directors, involvement of owners in the management of banks and the effect of legal framework. A comparison of agency theory and stewardship theory was also discussed in order to get the view of respondents as to how these factors affect reporting and transparency. The findings in these matters were discussed under different themes below.

From the interviews, there emerged a picture of directors who are generally satisfied with the effectiveness and practices of their boards, but who also see areas where there is significant room for improvement. Key findings include:

Board effectiveness: Some 95% of directors rate their boards as either effective or very effective overall. Directors are generally positive about all aspects of their fiduciary oversight, and their rating of their effectiveness at ensuring ethical behaviour continues to rise. Only 59% of the directors responded favourably when asked to rate their boards' effectiveness in shaping long-term strategy. Only 63% of the directors responded favourably when asked to rate their boards' effectiveness in planning for CEO succession. A great majority (84%) of directors say they have effective evaluation of CEO performance but far less effective processes for evaluation of individual directors.

Board processes: The overwhelming majority (95%) of directors are satisfied that they receive sufficient information to do their jobs, but satisfaction with the CEO on this score is low and less than one-third of directors have independent information channels about company operations. Only 33% of directors say they monitor company culture to a great or very great extent and only 32% closely monitor human capital. Almost all boards have regular executive sessions and nearly two-thirds hold strategic retreats, but only about half require outside directors to visit company operations. Despite governance requirements that are more stringent, less than two-thirds of boards have regular training for directors.

Board dynamics: Ninety percent (90%) say that their boards behave independently of management to a great or very great extent. Nevertheless, 91% say their boards work well with senior management. Despite greater focus on board independence, only 11% of respondents felt that it had become “much more difficult for outside directors to work in close partnership with management.”

Eighty-two percent (82%) of directors report, “CEOs have less control over their boards” to at least some extent, with 49% indicating this has happened to a great or very great extent. The reforms have also shifted the focus of boards’ activities significantly, with 84% of respondents indicating that to at least some extent they are “now spending more time on monitoring and less on strategy.” Fifty-seven percent (57%) of directors say they are now more hesitant to serve on other boards, with inside directors expressing even more hesitancy than outside directors.

6.2 Results of findings

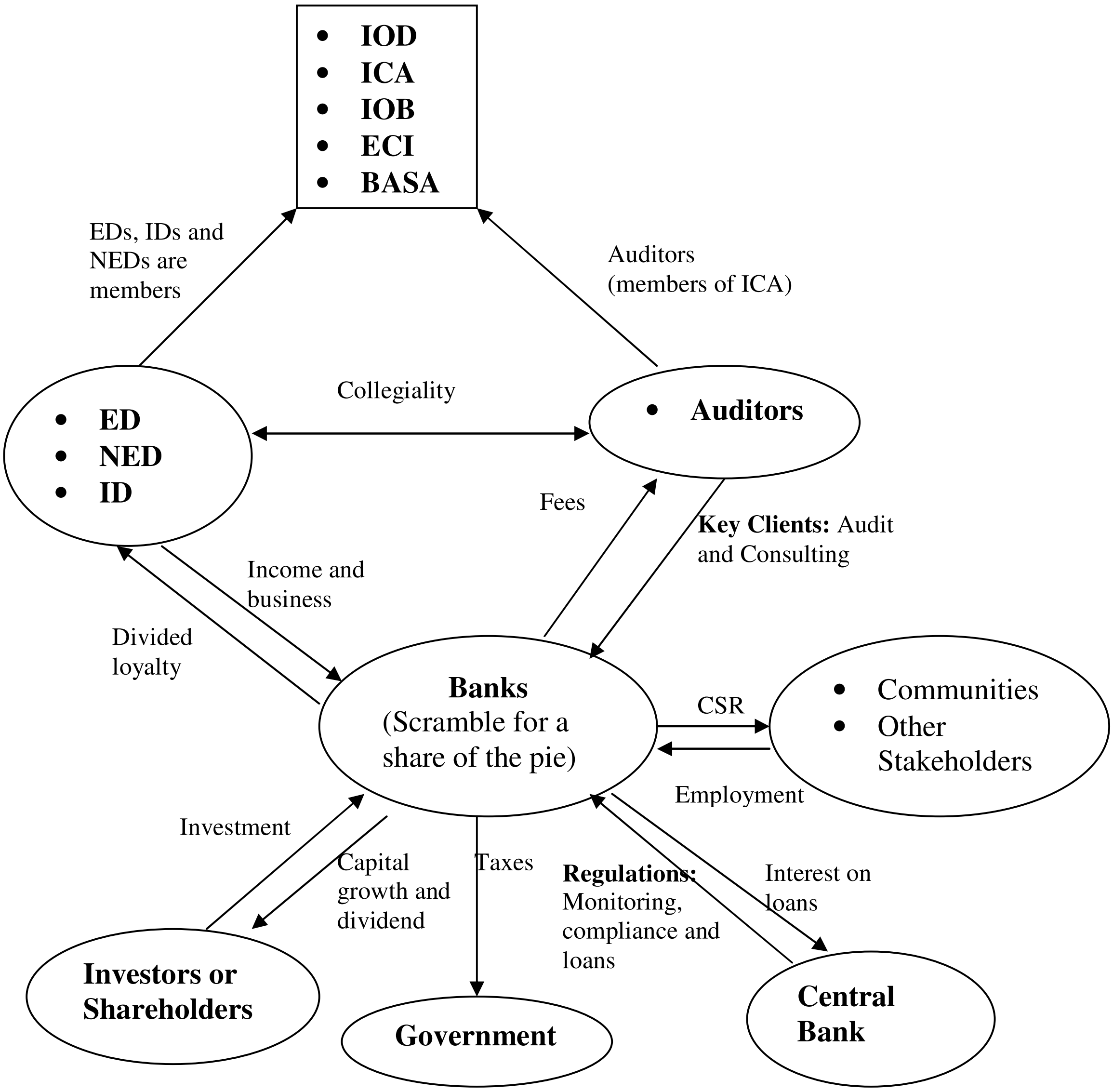

Diagram 6.1: Sociogram depicting Sociometric test of CG dilemma

Diagram 5.5 and 6.1 defines the associations that exist in banking corporate governance structure as defined on Chapter 1 of this document. Different stakeholders have different interests (shown above), which results in divided loyalty. The construction of boards is influenced by these associations argued interviewee 34. How board members behave and conduct themselves is influenced by board fees, ethics, skills and relationships as defined by Chart 6.4.1: 73. The outcome of this research is based on the themes discussed on diagram 6.1: 54, Chart 6.4.1: 73 and the conceptual framework. Banks are an important sector of any economy, hence has as many stakeholders as any other important sector. The growth of any economy is as a result of the efficient system of banking. Each stakeholder then needs to increase the level of income from the profits from banks argued interviewees 34, 35, and 36.

Governments through the Central bank plays a critical role of monitoring and defining the banking regulatory framework in order to reduce insider dealing, non-banking business and protecting depositors money. Investors' interests are to insure that there is capital (... increase of share price and market price) and dividend growth), that is growth of shareholder value. Communities and employees are interested in continued existence of the banks for creation of employment and security of jobs, while directors and auditors are interested in increase in fees. Institutional boards like BASA, IOD, ICA and others are worried about the governance processes in the bank and the conduct of their members. They also play a monitoring role of how their member conduct themselves and if they are found to be breaching the institution's ethics, then they will be struck off from being members. There are therefore balances and checks within this association which assist in the improvement of corporate governance system in the sector argued interviewee 19.

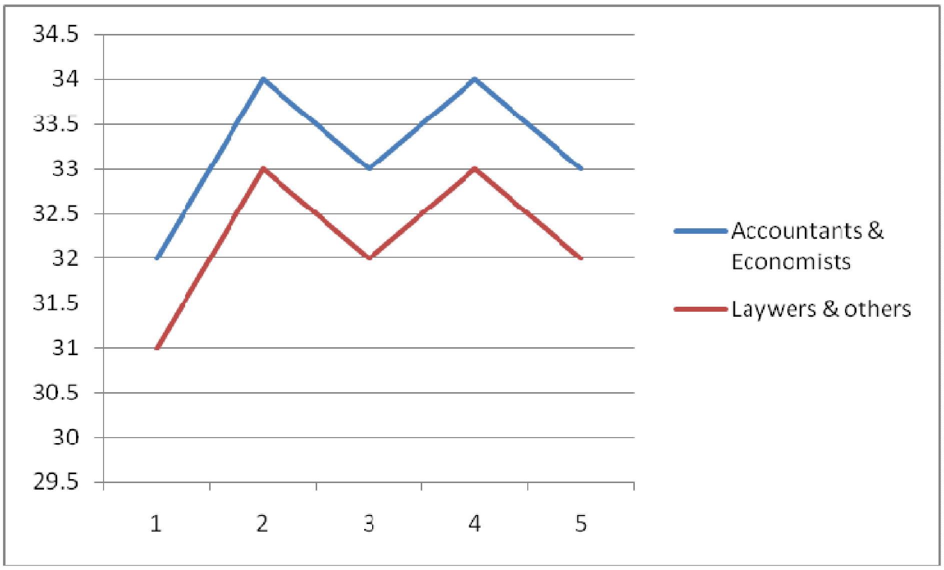

Chart 6.2: Association correlation

A test was done to test if there is any relationship between institutional memberships, professional field and how they affect independence and transparency. The results are shown on Diagram 6.2, which shows a positive correlation between the two. Respondents are more willing to associate with members of their own groupings that are either same professional or institutional affiliation. The argument was that members of the same profession tend to observe the ethical requirements of their institution as they can be struck off the register if their conduct is found not to be consistent with the institution.

The positive correlation therefore is a trigger for compliance with ethical requirements of different institutions, which results in independent behaviour and transparency argued interviewee 30. The association is therefore beneficial to all parties as it stimulates the behaviour of members so that they can comply with the requirements of different institutions which improve compliance with best practice of corporate governance argued interviewee 1. Interviewees 3, 6, 7, 9 expressed the view that banks value NEDs and IDs for the skills and experience, business they bring in from the companies they manage and for their influence in Government. As a result of this background directors are considered to be independent as their history supports the notion that they are independent professionals who can improve transparency in how banks disclose information to different stakeholders.

6.2.1 Shareholder Activism

When share prices drop, shareholders lose money but option holders only lose an opportunity argued (Monks 2001: 142 - 147). Option holders are the executives, who agreed that there is growing recognition that broader conceptualizations of how boards add value to their firms are required (Interview 2, 3, 4, 5 and 7). The author managed to secure 27 interviews and table 4.2.1 shows the schedule of interview times.

Historically Shareholders in emerging markets did not take part in the running of the firm they own argued interviewee 5. This responsibility was left to the board until recently when institutional investors began to increase in number especially for listed companies argued interviewees 3 and 5 who agreed with (Garratt 2004: 52). Boards were left to determine dividend policy, options and remuneration levels without the participation of Shareholders resulting in executive remuneration increasing more than revenue growth especially in US argued (Jackson 2001: 200).

Hirschman (1970) discussed the exercise of power within a “voice” and “exit” framework. “Voice” includes inter-alias, meetings, constructive dialogue and voting. “Exit” in this context, would be selling the shares. Exercising “voice” by means of voting may not be easy to do especially when trying to exercise votes attached to overseas investments.

The research showed that individual investors dispose their shareholding if not happy with the board while institutional investors participate in the running of the bank argued Adv Myburgh and interviewee 3. Disposal by an institutional investor results in share price falling. Participation of shareholders and other stakeholders like the Registrar of banks in the running of banks is increasing resulting in improved corporate governance practice argued interviewee 5. Interviewees 3, 4, 5 and 6 argued that the participation of Shareholders in the administration of banks improves transparency.

6.2.2 Owner Managed Banks

The shareholding perspective as an orthodox and dominant approach to the understanding of corporate governance has its ideological and theoretical origin in the fundamental mentality of individual private ownership rights as the foundation of capitalism. Traditional wisdom is that private ownership is fundamental to a desirable social order and to development of an efficient economy and thus private ownership rights are inviolable to corporate governance argued interviewee 10 and 11.

This belief was the major cause of bank failures as owners operated banks as personal private business, which resulted in the banks failing to reach the maturity levels, hence collapse as a family owned bank. Abusive insider trading and related party transactions were the order of the day argued interviewees 35, 36, 37 and 41. Serious corporate governance failures emanated as owners engaged in non-core speculative activities similar to the BCCI case contributed interviewees 8, 10, 11, 35, 36, 37, and 41. Owner managed banks were seen to be more risk than public banks as all corporate governance weaknesses were observed in how the banks were managed. Unlisted banks do not meet the disclosure requirements as per the King 2 Report (2002); hence shareholders do not have access to most of the information argued interviewee 9. There is no compliance to the code of best practice even the King 2 Report, resulting in most of them collapsing argued interviewee 5. Most of the banks that failed were not listed, hence did not meet the disclosure requirements of listed banks.

The positive side of this setup is likely, one can find in family banks where the family factor is helping communication and information exchange between family members in different roles. The father–daughter relationship where the father is family-shareholder and the daughter family-manager improves corporate governance practice contributed interviewee 3.

The family involvement does not require specific disciplining governance mechanisms. The reference model assumes that both the principal (father) and agent (daughter) have the same information throughout the relationship. The principal and agent share common information regarding all relevant characteristics and variables (symmetric information), and the agent's effort is verifiable, so that it is possible for the principal to check that the agent fulfils the tasks. In addition, the principal will offer the contract to the agent depending on the type of agent argued interviewee 19. FNB is one of these success stories of Corporate Governance argued interviewee 3 as they are a listed owner managed bank, which grew to maturity levels when the bank was listed in 1998.

6.2.3 NEDs and IDs

The board members are not expert in banking matters, they work relatively few hours, and they have limited options but to accept the advice from executive directors argued interviewee 37. As a result of low fees (Chart 3,1) directors contribute less hours and effort to the bank argued interviewee 33. They meet four times a year as a board to analyze bank performance, source financial statements 2006 (ABSA p.: 14, FirstRand (FNB): 70, Nedbank: 86 and Standard Bank: 33). Scandals, fraudulent incidents, (document 2: Appendix 1), for example (BCCI, Maxwell. Enron, Ahold, WorldCom and recently Fidentia cases), demonstrate that NEDs have not always carried out their fiduciary role effectively argued interviewee 5. As (Hooghiemstra and Van Manen 2004: 314) argued that any NED or ID is only as good as the executive will allow him to be. Any executive can kid any NED to do virtually anything argued (McNulty and Pettigrew 1996: 160). These arguments are the true reflection of the effect of independence, which board members have to show in order for them to be seen to be carrying their fiduciary duties. Failure by directors to carry out their duties will result in information asymmetry, fraud and bank failures argued interviewees 18, 19, 34, 35 and 36.

Given the limited amount of time spent on board activities, the executives give NEDs and IDs information they want to give them (information asymmetry). What came out clearly was the lack of time as most board members of the banks sit on more than six boards giving them little time for preparation and to understand bank business agreed all the interviewees as reflected in all the financial statements. It was clear that on this respect there is no value added regarding the administrative issues of the bank, hence the researcher propose that ED take stewardship role in managing the affairs of the bank they are employed.

Why are the IDs and NEDs needed then? (Demb and Neubauer 1992, Delfos-Roy 1997 and Maassen 1999) found out that IDs and NEDs do not have time for the boards they sit on and they trust the executives will give them information to be able to do their work. If that trust is not there and the CEO holds information then they are seen to be irrelevant, leaving the executive to run the banks. The results of the researcher's interviews indicate strongly that NEDS and IDs rely heavily on information from the CEO. The role of IDs and NEDs is to bring business from the companies they are executives, they influence policies and relations with the Government and expertise argued interviewee 3. There is empirical evidence that NEDs and IDs are important drivers of the bank as their role is to formulate strategy, while at the same time representing the interests of different stakeholders argued interviewee 34.

Administratively they have no major role argued (Amoako-Adu and Smith 1995: 413) this was the result that came from the survey of NEDs, IDs and market analyst. While (Leblanc 2004: 1 - 313) argued that there is no statistical evidence of a relationship between corporate performance and NEDs/IDs participation, the results of this research were contrary to these findings as NEDs and IDs influence deals that flow to the bank from the companies they are executives for example the acquisition of ABSA by Barclays was as a result of the role of NEDs and IDs being board members of Barclays Plc and Standard Bank by ICBC.

6.2.4 Independent Auditors

Auditors are governed by their membership of the ICA; hence have professional obligation to operate ethically. They are required by law to test materiality of how directors behave and report to shareholders (ISA). Shareholders place reliance on the auditor's opinion, which has created CG problems argued interviewee 5. Directors have a responsibility to manage the bank but shifting their responsibilities to a third party to check on how they operate the bank creates the corporate governance paradox argued interviewee 33.

Unless accounting and audit practices are reformed so that financial statements can be authenticated by recourse, reliable commercial evidence, audits will remain red herrings (Wolnizer 1995: see also document 2). This has been the finding of the researcher; and the dilemma (Diagram 6.1: 54) shows the evidence of collegiality of auditors and EDs. Interviewee 3 argued that the relationship between EDs and auditors is an area of concern in the CG literature until such time when EDs take their stewardship role in order to mitigate risk.

The findings from this research indicates that audit fees causes a negative trigger as a result of the growth in audit fees (document 4: Appendix 1) Auditors have lied about their independence, which is the reason why auditors call banks key clients argued (Turnbull 2006: 1). Auditors generate huge sums of money from banks compromising the issue of independence argued interviewees 3 and 19. It was agreed that, as a result of the law and regulations, every respondent assumed auditors are important stakeholders in the CG system. All the three Financial Directors interviewed and Advocate Myburgh agreed that the role of auditors can be supported by audit committees through re-sourcing internal audit as they have more knowledge of the business than external auditors. The growth in audit fees acts as a negative trigger on the conceptual framework considering the number of corporate failures in recent times and the current global economic crisis (2008). As a result of the enactment of the Sarbanes-Oxley Act (2002), Auditors have a personal liability if misstatements are found in audited financial statements, which are a positive stance, which will assist to mitigate the risk of bank failures argued interviewee 18.

6.2.5 Board evaluation

The themes discussed so far indicates that the role of the board is instrumental in good corporate governance. The task is characterized by the pressure of responsibility, limited time and distance from operations of the bank, which the board is set to direct and control. Board appraisals are prescribed by the UK Combined Code and other codes of governance applicable to Southern Africa. Board evaluation can help the board to tune its contribution to the sustained success of the bank argued interviewees 35 and 37.

Analyses of the evaluations done by the four Chairmen of the four banks were made available to the researcher and Table 6.2 is a table of outcomes of the findings. Evaluations are categorized into five major themes which are strategy, control, information, decisions and practice of the board work. Answers provided in the evaluations reflect how individuals or groups of individuals (board members) evaluate their contributions to the work of the board to which they belong.

Board leadership was found to be a decisive factor when it comes to the performance of each board. Data was analyzed from the duties of the Chairperson, IDs, NEDs and CEOs of all banks and there was no difference in their activities as the governance structure of all the banks are the same. Minimum standards of compliance to best practice are maintained by each bank resulting in the scoring to be between 4 and 9 out of 10.

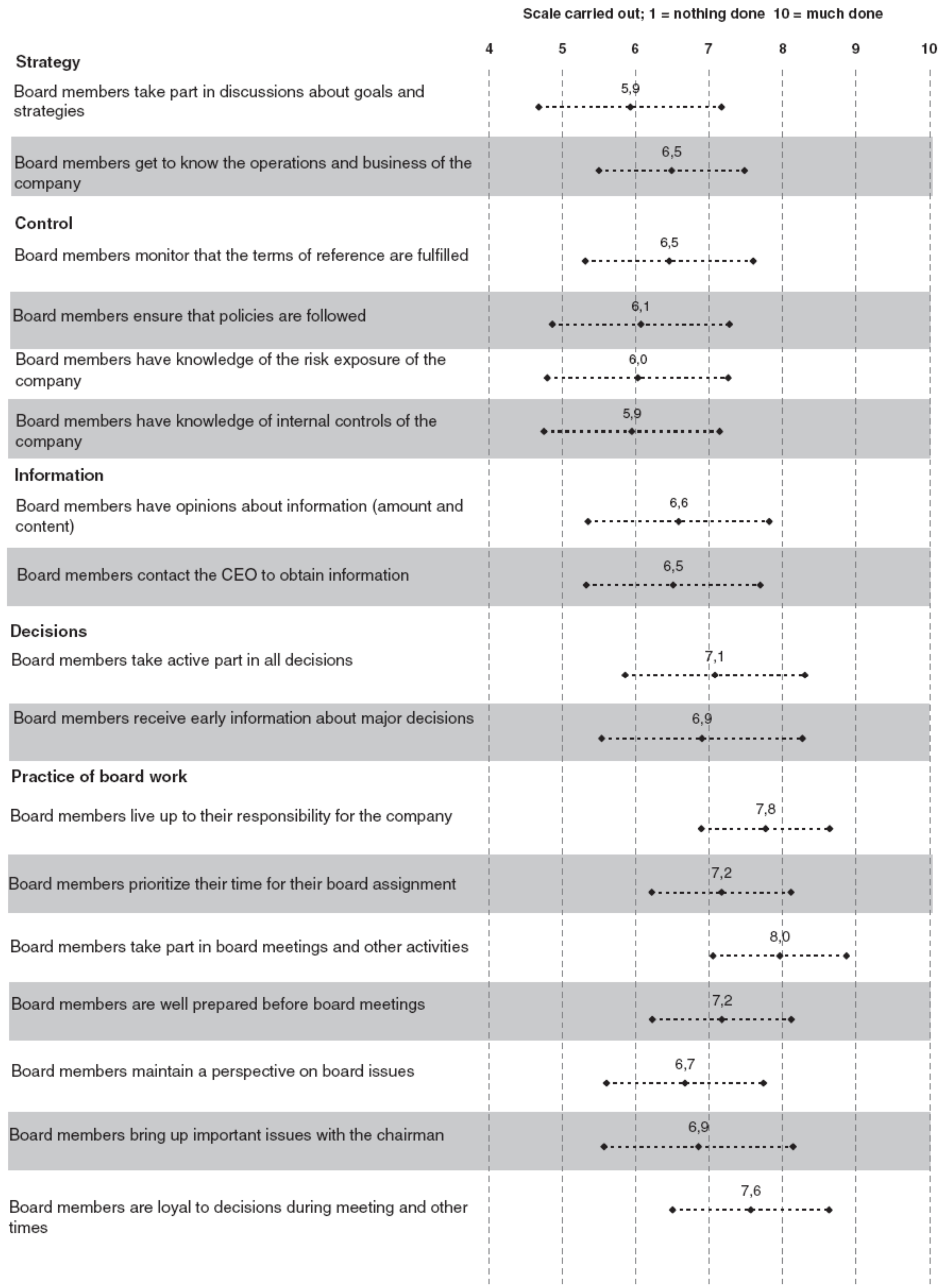

Figure 2: Answers from board members
Marked points represent mean values and standard deviation

Table 6.3: Results of board evaluations of the four banks

The board evaluation was done on a scale of 1 to 10 and the average on all categories was 6,5. Table 6.3 above indicates the gap that exists between actual performance of the board, expectation from different theories and what is expected of them by different stakeholders. An average of 6,5 is an indication of an average board that observes board practices but weak in risk management and internal control which is why failures ok in the financial sector (Table 6.3). There was growing recognition, that broader conceptualizations of how boards add value to their banks are required argued interviewees 4, 6, 10 and 11.

Instead of describing particular elements of corporate governance (agency theory and monitoring) boards need to develop a model that conceptualizes the board as a social phenomenon argued (Nicholson and Kiel 2004: 444, Katz and Kahn 1978 and Kazanjian 2000). Boards in the banks were found to be dynamic but no open social systems are used to measure the behaviour of the board argued interviewees 1, 2, 22, 19, and 34. Table 6.3 indicates the gap that exists between actual performance and expected performance especially on key deliverables like strategy formulation, internal control, and risk management.

There is a formal appraisal system for board of directors in the two countries (mostly group board evaluations are made public not individual). Non performing directors are not identified in the appraisal process, while affecting the value creation model. Shareholders decide during the annual general meeting who should resign. Boards are viewed as a bundle of intellectual capital that enables it to enact a role set argued interviewees

3, 19 and 33. As a result the concept of collegiality is applied when evaluating the bank and appraising the board's performance.

6.2.6 Legal Compliance

(Document 1: figure 2.1 and 2: Chart 2.2.1) raised the issue of the failure of the legal framework, which resulted in many Acts being promulgated into law in UK and USA. Respondents 3, 5, 10 and 11 agreed that the law has been reactive to scandals than being proactive. It was agreed that there is a need for governance reform as corporate governance issues are not static (interviewee 34).

As a result of the failure of the regulatory framework, the Governments of SA and Zimbabwe ended up bailing out banks which we on the verge of collapse, which include: SA (African Bank, Nedbank, Trust Bank, TA Bank and Saambou Bank), Zimbabwe: (Barbican Bank, Trust Bank, Unibank, Century Bank and Time Bank). In SA out of the banks that got assistance only Nedbank, African Bank and Trust Bank survived. African Bank and Nedbank were assisted by its major shareholder Old Mutual which has also incurred huge losses due to exposure to the subprime market. Trust Bank was merged into ABSA. The Zimbabwean banks which were merged into ZBAG were Barbican Bank, Trust Bank and Time Bank. These survived as a result of the bailout plan. Unibank collapsed while Century Bank was bought out by CFX Holdings now called CFX Bank. These failures were as a result of poor corporate governance structures argued interviewee 35, 36, 37 and 41.

6.2.7 Agency Theory versus Stewardship Theory

CEOs at 23 firms in the USA which were under investigation between 1999 and 2001 took US$1,4 billion in income, while at the same time these companies laid off 162 000 employees and the value of their shares fell by US$530 billion – about 73% of their market value argued (Cornforth 2001: 219). This was the time when it became fashionable to link the CEO's remuneration to shareholder value; this led to a massive transfer of wealth from shareholders to CEOs. This trend exists in the banks. CEO of banks enjoys massive remuneration including share options which are not linked to performance argued interviewee 9.

Agency theory focuses on the notion of an agency relationship (conflict of interest) explained in previous two documents, while stewardship theory focuses on successfully performing inherently challenging work, to exercise responsibility and authority, thereby gaining recognition from shareholders argued interviewee 3. Directors of banks agreed during the interviews that the stewardship theory is the way to solve the CG paradox as directors should be accountable to the shareholders and should not involve auditors in responsibility sharing. They need to satisfy all stakeholders that they are doing an excellent job argued interviewee 5.

The argument by Cornforth (2001: 219) states the failure by directors to satisfy all stakeholders is due to a conflict of interest, hence an adoption of the stewardship theory will mitigate the level of self-centeredness among directors argued interviewee 19. The emergence of stakeholder theory (Gay

2002) was prompted by the growing recognition by boards of the need to take account of the wider interests of society. The interests of all legitimate stakeholders have intrinsic value and no set of interests is assumed to dominate the other, hence interviewee 19 believes this theory is not centred on director monetary rewards.

Long term relationship between principal and agent, will result, in shareholder loyalty argued (Charkham 1994 and Sykes 1994). Loyalty of shareholders is influence by the performance of the bank. If the bank performs poorly, shareholders will always seek safe heavens. The myopic market model supports the principal – agent model as it supports the maximization of shareholder wealth while ignoring the interests of other stakeholders argued interviewee 19.

There is need for statutory changes in order to solve the CG problem suggested (Hutton 1995, Kay and Siberston 1995). Support for managerialism is an important factor in the financial sector in emerging markets as this advocate for stakeholder theory, which equates managers with other stakeholders. The model will assist bank to perform better argued interviewee 34. The abuse of executive power and stakeholder models, (Hutton 1995, Kay and Siberston 1995, Freeman 1984 and Blair 1995) support the stewardship theory as a way of improving social efficiencies of the economy, which will result in satisfying all stakeholders.

6.3 Board Effectiveness

As the ultimate corporate decision-makers, boards of directors are assuming an increased importance in business life. Understanding how boards work is not a simple task argued (Nicholson and Kiel 2004: 442). Despite this complexity, the health of our banks, economies and society rely on people understanding how boards can influence firm performance. There are three major factors that dictate how a board functions and how it achieves a greater degree of control over governance outcomes, which are institutional and historical factors, capability set that will enable it to carry out its mandate and various board level interventions will result in changes to this capability set resulting in different organizational outcomes.

It is therefore important to note that board effectiveness starts with strategic and financial control and a board that emphasises neither of these would be classified as a “rubber stamp” board representing the managerial hegemony perspective argued (Hendry and Kiel 2004: 512, Mace 1971, Vance 1983, Lorsch and Maclver 1989) (Sec 9.1). They also argued that boards are a legal fiction dominated by EDs, which interviewee 19 disagrees with his contribution on Section 9.1. EDs however become so powerful as a result of how the bank has performed over the years. Good results, result in the CEO becoming powerful as he/she is seen to be the brains behind the success although this can be a natural result or other factors argued interviewee 3. Attributes or themes below are the major factors that influence director effectiveness stated all respondents.

6.3.1 Knowledge and Experience

Chart 3,1 indicate that skills, experience and knowledge are major themes for bank's transparency and information asymmetry reduction. A balanced board with skills, experience and competencies (inside and outside) will result in a robust, transparent and effective board argued Garratt 1996: 52. All the banks are equipped with highly skilled members mostly CAs and some have post graduate qualifications (Appendix 1). The four big banks in the two countries have been posting almost similar results for the past five years as reflected in document 4. The respondents agreed that director experience is an important attribute in board effectiveness.

6.3.2 Stakeholder Expectation

Attempts to identify direct relationships between corporate performance and board performance are naïve, particularly when carried out in a cross – sectional analysis argued interviewee 5. The dilemma developed on Diagram 6.1 shows the interests and benefits which are expected by different stakeholders and Table 6.4.1 highlights market efficiency as the proposition by shareholders.

Shareholders expect higher dividend and capital growth. A bank that always performs better than all other banks is a centre of attraction for shareholders. Constant capital and dividend growth is an indication that the bank is well managed and comply with best practice argued interviewee 5.

Employees expect growth in income, bonuses and long term employment contract. Creditors and debtors are a key element of the operations of the bank as they require security that the bank will remain in existence. Community expects that the bank will continue to absorb and employ school and college leavers. The banks play an important role in CSR through bursaries, sponsorships and community development, which supports the growth in the standard of living responded interviewee 3.

Boards of directors are keen to be associated with the most successful bank, which will result in the capital growth through share options. Their interests are divided as they expect the bank to grow through their efforts while the end result is to create their own wealth bringing the paradox into play. Board performance is affected by these expectations and conflict of interest argued interviewee 10. The situation in the financial sector in emerging markets remained the same as in the developed markets as international banks operate in the same markets. The corporate governance crisis remains a problem in both developed and developing economies as summarized below argued interviewee 11. These models shows that different stakeholders have conflicting interests, hence the conceptual framework advocates for the mechanisms to be triggered in order to reduce the conflicting interests.

6.4 Analysis of themes, theory and conceptual framework

Table 6.4.1 is an analysis of different models of CG, outcomes of the research findings and how different stakeholders' interests are addressed (Diagram 6.1: 54). Shareholders do not have enough control of the banks they own as a result of separation of ownership and control stated (Jensen and Meckling 1976, Manne 1965). They argued that, in order to address this problem, there is need to improve the incentive system (Chart 6.4.1: 59) and improve the role of audit committees. This argument does not apply to the bank industry as banks are mostly owned by institutional investors who are active shareholders in formulating strategies for banks. Institutional investors advocate for market efficiency, which will result in dividend and capital growth argued interviewee 34.

	The principal-agent or finance model	**The myopic market model**	**The abuse of executive power model**	**The stakeholder model**
Major contributor	(Jensen and Meckling 1976), (Manne 1965)	Charkham (1994), (Sykes 1994)	(Hutton 1995), (Kay and Siberston 1995)	(Freeman 1984), (Blair 1995)
Purpose of bank	Maximization of shareholder wealth	Maximization of shareholder wealth	Maximization of bank wealth as a whole	Maximization of shareholders' wealth
Problem of governance	Agency problem	Excessive concern with short-term market value	Abuse of executive power for their own interests	Absence of stakeholders' involvement
Cause	Shareholders do not have enough control	Ineffective market forces	Institutional arrangements leave excessive power to management	Governance failure to represent stakeholders' interests
Background	The separation of ownership from control	The takeover movement (1980s)	Managerialism	Different styles of capitalism
Assumption about the causation	Self-interest human behaviour	Market dysfunction	Authoritarian governance	Traditional mentality of private ownership

Rejection	Any external interventions	Market governance	The principal-agent model	The principal-agent model
Proposition	Market efficiency	Importance of long-term relationship	Director as a stewardship or trusteeship	Social efficiency of economy
Recomm-endations	• *Removing restrictions on markets* • *Strengthening the incentive system* • *Introducing a voluntary code.* • *Give power to audit committees.* • *Reduce dependence on auditors.*	• *Increasing shareholder loyalty and voice* • *Reducing the ease of shareholder exit* • *Encouraging relationship investing.* • *Empowering long-term offer groups.*	• *Statutory changes in governance* • *Fixed ten - year terms of CEO and CFO* • *Independent directors should be used as consultants to ED* • *Greater power to audit and risk committees*	• *Trust relationships and long –term contractual associations between the banks and stakeholders* • *Inter-bank cooperation* • *Employees' participation* • *Business ethics* • *Stewardship*

Table 6.4.1 Themes, theory and practice

Table 6.4.1 highlights themes raised on Diagram 6.1: 54, which shows the conflict that exists between different stakeholders and theories. Different expectations create corporate governance dilemma as theory in itself does not agree on one principle. The finance model (Agency Theory) and The Myopic Market Models' (Takeover movement) major focus is on maximization of shareholder value while Executive Power Model focuses on managerialism. The Stakeholder Model's major focus is social efficiency which empowers the mentality of private ownership of resources by all stakeholders, which create trust and long term contractual association of all stakeholders. The difference in focus areas creates the gaps in corporate governance discussed above and in document 4.

All these models do not recommend any specific model as the most suitable for any environment. Different philosophies provide different views on best practice, which results in different human behaviour. As a result of different interpretation of these models, corporate continue to fail as these models cannot identify potential fraud or shenanigans in the financial management system. This has resulted in financial measurement tools failing to indicate potential failure of banks argued interviewee 34. Recommendations on Table 6.4.1 are issues which banks are struggling with as they cannot strike a balance between different models.

The themes here (Chart 6.4.1: 59) show that if highly qualified board members are appointed, will result in the bank being able to report on all its activities, reducing information asymmetry. Internal controls will improve, while risk is reduced. Board fees causes negative triggers on the conceptual framework as directors do not spend enough time on the bank's business and due to high audit fees which are charged when the bank is in trouble. Low board fees result in qualified identified board members rejecting appointments. If they accept appointment, the quality of work will be poor due to less time being employed argued interviewee 34.

Chart 6.4.2 is an outcome of the analysis of the conceptual framework and the behaviour of the board. The themes are triggered to produce either a positive or negative outcome as a result of the theme's impact on the performance of the bank.

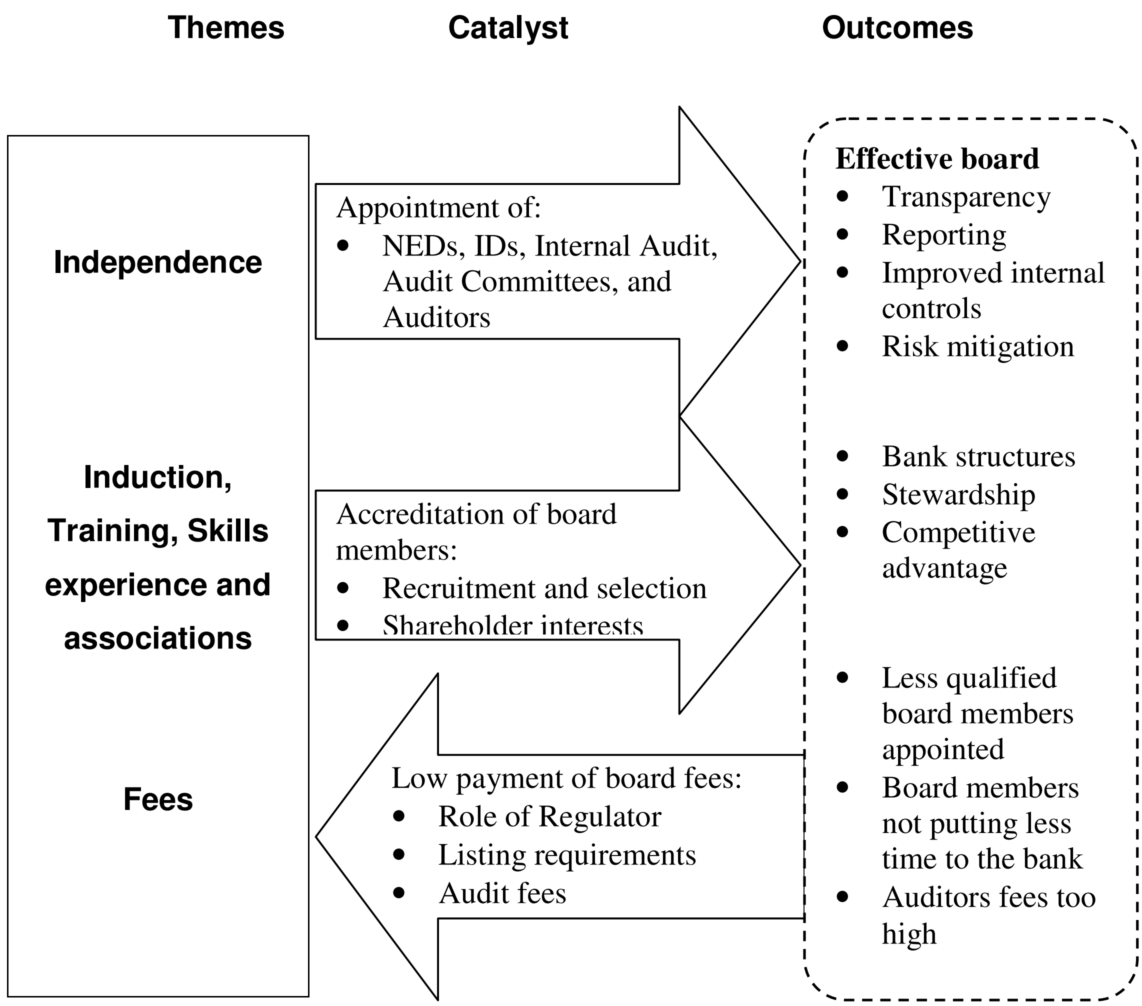

Chart 6.4.2: Themes and Outcomes

6.5 Analysis of Findings

6.5.1 Experience and skills level

Banks are managed by highly qualified directors mostly with first degree, Chartered Accountants and post graduates mostly MBAs (Appendix 1 and Table 6.4.3) below. There are very few individuals with doctorates and a few with no first degree but strong industrial experience. It was clear that these qualifications are important instruments in running the banks.

The problem which came out clearly was the issue of induction and accreditation. Most of the IDs and NEDs are experienced business people but non bankers hence need to go through a through induction programme for them to appreciate how banks are administered. The registrar of banks has introduced a post graduate programme to train all bank directors, which has become a basic requirement for every director. This programme has assisted in reducing the risk of all banks as evidenced by the strength of the Southern Africa banks during the global financial crisis argued interviewees 36 and 41.

6.5.2 Independent and Non-Executive directors

Banks have different ways of defining independence. These definitions were developed to suite the perceived skills shortage argued interviewee 1. It was found out that there is a cooling off period of three years after a director has been an executive of the bank for him or her to be appointed as board member. The issue here is whether this is sufficient to change an individual to be independent. The researcher's argument is supported here that director independence is a personal mindset as level of interest differs. Independence is influence by many things (Diagram 6.1: 54) which includes profession, ethics, benefits and culture among other things.

Board Scorecard

	ABSA	FNB	Nedbank	Standard Bank
Independent Directors	12	13	15	14
Average ID Boards	10	9	10	10
NEDs	5	4	6	3
Average NEDs Boards	6	4	5	6
Executive Directors	4	10	4	2
Skills level	"++"	"++"	"++"	"++"
Board meeting attendance	86%	91%	83%	87%
Shareholder activism	H	HH	H	HH

Key

H	Moderate participation
HH	High Shareholder participation
"++"	Very high skills level

Table 6.4.3: Director Attendance

The IDs and NEDs have their own interest, like getting finance from the bank where they are directors to finance their own businesses or companies they manage. Banks are interested in getting business from the companies which are managed by the IDs and NEDs. This shows that the issue of conflict of interest is a difficult paradox to solve argued interviewee 2 and 3.

Although NEDs and IDS are considered to be an important part of the board, the issue of personal interest was seen to be the dominant attribute affecting their independence and effectiveness argued interviewee 34. On average each director sits on ten boards, besides being an executive of another company, which resulted in lower board meeting attendance as reflected on Table 6.4.3. This also shows that NEDs and IDs have little time for the bank they are directors resulting in little value addition as reflected in the 2006 financial statements of all banks (Appendix 1). Low participation shows that their interests are somewhere not in the bank, (Table 6.4.3.) Interviewee 33 suggested that black Governments in Africa express the need to have influential black NEDs and IDs on bank boards that can negotiate policies on behalf of the bank with the governments. Their role is as negotiators rather formulation of strategies argued interviewee 33

NEDs and IDs increase deal follow to the bank, and need not be involved in the administration of the bank argued interviewee 3 and 5. Although there is conflict of interest between the directors and the bank, NEDs and IDs are an important component of the bank as they add value as a result of their experience, knowledge and influence in the industry. They improve the transparency and reduce the levels of risk and information asymmetry.

6.5.3 Auditor independence

It was difficult to conclude that auditors can be independent as they derive a lot of income from banks, (KPMG, PriceWaterhouseCoopers, Deloitte, Ernst and Young 2006 financial statements). In Auditors' terms banks are considered to be key clients as they do not only provide audit services but also consulting services. Audit fees have been going up for the past five years at an average rate of 20% year on year (Appendix 1), which is more than the wage bill of each bank.

Auditors belong to the same Institute of Chartered Accountants, where most directors are also members (Diagram 6.1). Although there is professional and ethical obligation to perform, this obligation was found to be outweighed by collegiality and fees. Auditors will always assist their college mates in cases of qualification of financial statements; hence Turnbull (2006) argues that there is no such thing as auditor independence.

6.5.4 Owner managed banks

After the liberalization of the financial sector in SA and Zimbabwe, there was a growth in the number of banks which were owner managed. Most of them did not last (failed to reach the maturity level) as a result of the failure of the CG systems and legal framework (Document 2: Appendix 1). Although the board composition complied with the King 11 Report, IDs and NEDs were appointed by the owners hence where influenced by the owners to enter into abusive related part transactions, noncore speculative activities and excessive lending exposure argued interviewee 10, 11, 35, 36, 37 and 41.

Table 6.4.3 shows a high level of Shareholder activism at FNB as it is one successful owner managed bank. FNB is one of the major four banks in Southern Africa, which is owner managed that reached maturity level and has shown constant growth. Other banks' majority shareholders are institutional investors, who determine how the bank will conduct itself.

6.6 Summary of Findings

Corporate governance has assumed an increasingly important place in the banking industry. The board as an ultimate decision making body, is inexorably linked to corporate performance. Skills and experience was found to be critical to the success of the bank and shareholder confidence. The more experienced the board (Chart 6.4.3: 59 and Appendix 1) the more the shareholders are willing to pay a premium on the investment.

Board appraisals (Table 6.2: 49) can be useful as part of the development of a strategic plan for board or director development and performance measurement consistent with the bank's strategic plan: vision, mission and goals. This was found not to be easily acceptable by the board members as they felt appraisals will impact on interpersonal dynamics and collegiality among members of the board. Cohesion and trust is important to the effectiveness and functioning of the board.

The evaluation above (Table 6.4.1) concludes that there is still a lot of work that need to be done in an endeavour to solve the corporate governance paradox. The conceptual framework (Appendix 3 and Chart 6.4.1) addressed the research questions while proposing solutions to the conflict of interest problem. Board members need to take the stewardship role as this will enhance CG best practice.

The evaluation and analysis above (Table 6.4.1) supported the conceptual framework in answering the research questions, that there is always conflicting interests when directors are appointed as agents. The recommendations (Chapter 7) recommended practical solutions to the paradox, which if implemented in the banks; compliance with the CG best practice will improve.

7 Proposed policy options

Drawing from the management literature, the literature review (document 2), research questions, conceptual framework and findings from interviews, bank processes and performance, they posit that board effectiveness is likely to be heavily dependent on socio-psychological processes, especially those pertaining to group participation, interaction, information exchange and critical discourse. Each of various aspects of board demography is likely to have multiple and contrasting effects on the processes that contribute to effective board performance, (Forbes and Milliken 1999) supported this argument. These processes has the potential for reciprocal influence, although the exact nature and strength of these relationships are likely to vary hence the researcher proposes the following policy changes:

7.1 Audit Committee

Audit Committees needs to play a major role in the administration of the bank especially on risk management and compliance. Audit Committees through the internal audit has a better understanding of the operations of the bank than external auditors argued interviewee 18. The role of external auditors needs to change so that Audit Committees can issue a statement and sign the financial statements interviewees 33 and 34 concurred with interviewee 18. Independent auditors will continue to be used for the purpose of supporting the internal audit function argued interviewee 19. The growth in audit fees is an area of concern which requires further research in order to see if this growth matches with the value created for banks by auditors. Respondents confirmed that Audit Committees are important stakeholders in the management of risk and internal control of any organization. Their skills are important for mitigating risk, improving transparency and reporting argued interviewee 3.

7.2 Board Composition

It is proposed that the requirement for the composition of board members be changed. Banks should be administered by executive directors, who will take full responsibility of the running of the bank. NEDs and IDs can be used as consultants to the banks as they do not have enough time to add value to the administration of the bank. If EDs takes ownership of management of the bank then IDs and NEDs will concentrate on their major functions of watchdog, trustee and pilot of strategy formulation, which will improve value creation.

Their role has been observed to be mostly of business development than policy and strategy formulation. Why there have been a big number of banks that failed was as a result of NEDS and IDs not performing their fiduciary duties including risk management and monitoring. If fraud and non-compliance can happen in their presents then it is true that they do not know what happens in the bank.

7.3 Conflict of Interest

Diagram 6.1 shows the sociometric that exists at board level and the related service providers. In order for the banks to solve this paradox there is great need to appoint directors as stewards together with the owners. The removal of NEDs and IDs from the board will reduce the issue of conflict of interest as the executive directors will be full responsible for their actions.

Why should shareholders put reliance on third parties (auditors) when they have appointed directors to look after their interests? Reliance should be on the executives; hence NEDs and IDs should only be used as consultants if their skills are required by the bank.

7.4 Continuous Professional Development

Board members of banks are mostly highly qualified in the financial markets, with a few successful business people. Most of the NEDs and IDs are executives of big corporates and entrepreneurs who are very busy people. Directors need to be knowledgeable about the business of the bank and changes thereof, hence need to be inducted and trained in this field. All bank directors should be put in development programmes so that they can be aware of the changes in the industry argued King during the interviews.

Directors can be accredited by the IOD, who will develop programmes for this purpose. The Reserve Bank of SA has arranged with GIBS to train bank directors in all aspects of the banking business. Once a director completes the programme, he/she will be an accredited director of the bank. This will improve compliance and effectiveness of each board member argued Myburgh.

7.5 Independent Auditors

There is no such thing as auditor independence argued (Turnbull 2006: 1). During the interviews it was clear that bank directors and auditors are members of the same professional board Diagram 6.1). They share same information and knowledge; hence the collegiality theory comes into play.

As a policy change proposal, the researcher submits that the role of auditing can be done by the Audit Committees through the internal audit function. The internal audit departments need to be staffed with highly skilled accountants who will develop the skills required by the bank. Internal Auditors are the best people to manage risk and monitor compliance as they spend more time in the bank than External Auditors who only visit the bank twice a year.

In compliance with the (Sarbanes Oxley Act 2002), the Audit Committee will take the responsibility of signing the financial statements and issuing a statement on the going concern, true and fairness of the financial reports. This proposal will improve transparency and disclosure of information as per the conceptual framework (Appendix 3). The researcher believes that this can be a solution to the issue of information asymmetry.

The gearing of the bank is an important aspect of monitoring compliance and risk management as the lenders will always monitor the gearing of the banks. Affordability of the bank to pay its loans, liquidity and the interest cover ratios are the signs of how the bank is managed. Debt issuers always monitor the performance of debt holders, in the same process they will be managing the effectiveness of the bank taking away the role being played by Auditors.

8 Research Integration

The most important predictor of director effectiveness is not independence, but strategic experience that matches the bank's needs …… Evidence that director experience is critical to board effectiveness is relatively new. However, evidence that board and auditor independence has neutral to negative effects on board effectiveness argued (Cornforth 2001: 218 and Ingley and Van Der Walt 2002: 164). The more experience the board the more transparent and accountable (Chart 3.1.3: document 2). Generally, the results from the research suggest that there is no statistical evidence of the relationship between corporate performance and proportion of outside directors on the board.

All the themes raised on the research objectives and questions are answered by the director experience and ethical conduct of board members argued interviewee 5. Experience and social systems are the major triggers that activate the mechanisms on the conceptual framework, in order for the bank to follow the CG principles, which will result in better corporate performance that add value to shareholders. Like (Nadler 2004: 102 and Leblanc 2004: 437) argued, that the key to better CG lies in the working relationships between executive directors and managers, in the social dynamics of board interaction and in the competence, integrity and constructive involvement of individual directors.

Stewardship theory is an element of the social dynamics, where directors are motivated by sense of belonging not by agents' costs, which is the solution to the agency theory. How, when and why boards act, or fail to act is best determined by the social dynamics. Independence is irrelevant. Placing reliance on Auditors is the major cause for the failure of corporate governance. Executive directors should take their stewardship role and be accountable to the reporting and performance of the banks argued interviewee 3. This research therefore is integrated on the level of skill, experience and stewardship theory, which triggers most of the positive mechanism on the conceptual framework, while answering the research questions.

8.1 Summary

To avoid mandatory restrictive over regulation, active voluntary self-regulation, particularly in terms of confidence, accountability, ownership and growth is necessary. If not there will never be a perfect “system” of corporate governance. It is important that, the most obvious abuses will be outlawed and loopholes closed, but the ingenuity of self-interest will lead to the devising of new schemes to evade accountability.

9 Conclusion

Radical change over the last decade has focused the spotlight on the principles by which enterprises are governed and advanced the 19th century legal basis of the Anglo-American governance model appears ill-matched not only to the realities of the 21st century stated (Plender 2003: 21-24), but to the variety of board and company structures composed to create long-term value for shareholders. There is an assumption within the literature that CG research has adopted a Darwinian view (companies survive because they have optimal governance structures and diminish because they fail to adapt to the changing environment and requirements) (Kole and Lehn 1997: 421). CG and board performance are inextricably linked but little is understood as Forbes and Milliken (1999: 502) stated that, understanding the nature of effective board functioning is among the most important areas of management research as more about behavioural dynamics (the relationship between executive, IDs and NEDs) needs to be reviled (McNulty et al 2002).

It is clear that banks are currently attempting to redefine CG with practices that extend past rules and regulations in order to demonstrate their own brand of ethics, honesty, integrity and transparency. The development of effective evaluation is critical to the ongoing effort to understand and improve board performance, enhance individual contribution and satisfy shareholder concerns. Of equal importance is the transparency of disclosure regarding evaluation outcomes to shareholders, other stakeholders and the timely manner in which boards incorporate change, (a culture of openness and constructive dialogue in an environment of trust and mutual respect).

The key to better corporate governance lies in the working relationships between boards and managers, in the social dynamics of board interaction, and in the competence, integrity, knowledge, experience and constructive involvement of individual directors. Clearly, board structure is not as important a factor in determining board effectiveness as is normally believed; board membership and director competencies are quite important; and most significantly the behavioural characteristics of individual directors are crucial, if not determinant, of overall board effectiveness has been the evidence from the research.

The key isn't structural, it's social. The most involved, diligent, value-added boards may or may not follow every recommendation in the good-governance handbook and King 11 Report. What distinguishes exemplary boards is that they are robust, effective and social systems are functional. The outcome of this research is that there is a strong positive correlation between skills, experience, independence and organizational performance. The trigger for transparency is the social behaviour of directors, auditors and shareholders.

In reality, principals and agents do not always share common information and have limited capabilities to process the available information (bounded rationality). The situation becomes even more complex when the principal loses full control over the firm (non-family shareholder enters the ownership structure) or is not fully informed about the variables affecting his/her utility function. There will never be a "perfect" system of corporate governance argued (Clarke 2004: 160).

This is why corporate governance is about wealth creation, compliance and risk-management. Continued efforts to make corporate governance both improve corporate performance and enhance corporate accountability are vital and ongoing. The continuous raising of standards of disclosure will be critical to effective corporate governance. The reason corporate governance standards and reforms will increase in future as a matter of public concern is that more of the public will have more of their wealth invested in companies they will insist should behave responsibly. The volatility of markets is part of the cycle of risk and return, and the significance of corporate governance is to mitigate the most damaging outcomes whilst encouraging the most positive.

9.1 Statement of new and useful knowledge

The researcher found out from the respondents that the belief that independence reduces information asymmetry is a fallacy. Transparency happens as executive directors take responsibility and accountability of the administration of the bank argued interviewee 3, 5, 6, 10, 11 and 19. The field of corporate governance is at cross roads. Our knowledge of what we know about efficacy of corporate governance mechanisms are revealed by what we do not know and believe in argued (Daily *et al* 2003: 371).

The legal framework put practitioners between parallel lines so that researchers can believe that auditor and director independence exists. Independence is not as easy as the "regulatory definitions" would indicate. This is so because much of what compromises independence may only be identified within the boardroom, in the context of specific decision-making situations and the individual involved. The effectiveness of individual directors, including their independence of mind, competencies and behaviours, not just their "regulatory" independence, matters in this regard argued (Hooghiemstra and Van Manen 2004: 317).

Board dynamics and social systems

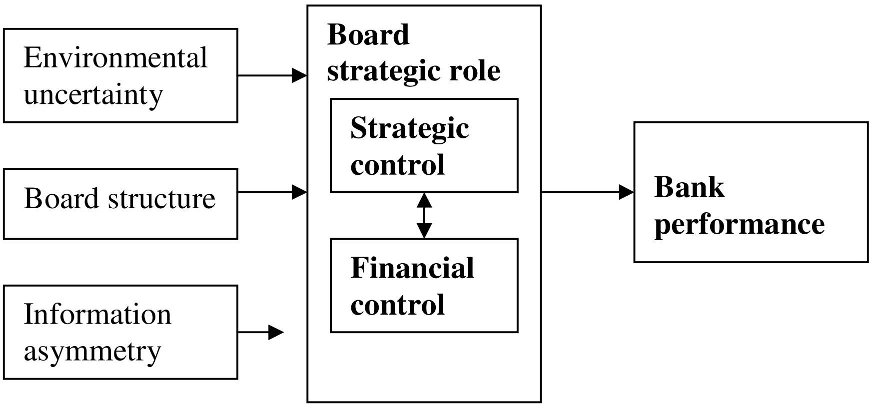

Chart 9.1: An Effective board

The useful knowledge developed in this research is the board dynamics and social systems (Chart 9.1). This creates effectiveness and motivation to take responsibility in the dissemination of information to shareholders. The missing link in establishing the relationship between board effectiveness and corporate performance may be an understanding of that elusive activity called board processes and setup, which will result in excellent corporate performance argued (Hendry and Kiel 2004: 505).

Interviewee 19 developed a new interesting board developmental process that links well with Diagram 6.1, Table 6.2, Table 6.4.1 and Document 4 Table 5.3.2: 60, which argues that boards are categorized according to their social behaviour and performance of the bank. This categorization of boards was after his research on board dynamics and effectiveness in 2008. This model fits very well with the findings in document 4 and the ranking thereof, which form part of the new knowledge and arrangement of corporate governance evaluation process. The boards were grouped or ranked into three categorize being:

1. **The Ceremonial Boards:** Exist to perform their duties perfunctorily *(Country club or passive board)*
   a. Buddies club
   b. Wiser than thou attitude to Board newcomers
   c. Management has all ducks in a row - scripted
   d. Presentation – Tight Agenda
   e. Little or No CEO – Board Communication between Board Meetings
   f. Directors Perform a compliance Role – Love the prestige
   g. Resolutions proposed by Management rubber-stamped

2. **The Liberated Board:** Free of CEO/EXCO Domination *(Representative board)*
   a. Sarbanes Oxley a Milestone: New Generation CEOs expect Boards to contribute
   b. Directors expect active participation as condition of acceptance
   c. Impetus from scandals at Enron, WorldCom, Tyco, etc
   d. Then Sarbanes Oxley 2007
   e. The Capital Markets began to price quality of transparency and good governance into securities.

3. **The Progressive Board:** Focus on enduring company success, beyond any CEO's reign, transcending any single market opportunity or product cycle *(Professional board)*
   a. Comply meticulously with the letter of the law; also, embrace its spirit
   b. Focus on sustainability of company

c. Typically effective as a team – gel
d. Directors maintain independence
e. Collaborative Constructive working relationship between CEO and Board – Board still confronting issues
f. Board adds value at many levels without being wasteful of time
g. Constructive and focused feedback
h. Management's strategy – setting diverse; enriched by directors' diverse perspectives on the external environment
i. Progressive boards take the self‑evaluation/evaluation seriously and implement findings
j. Consciously move from compliance to value add
k. This way they become an intrinsic competitive advantage

9.2 Reflective Critique

The learning during the research included the fact that, corporate governance crisis and reform is essentially cyclical. Waves of corporate governance reform and increased regulation occur during periods of recession, corporate collapse and re-examination of the viability of regulatory systems. When board dynamics and social systems are incorporated as part of the corporate governance best practice, will regulatory framework address the paradox?

As an accountant the information gathered during this research did not make sense as the researcher could not find evidence of director and auditor independence. In the researcher's mind, independence is influenced by what an individual receives yet there are so many dynamics involved in people's behaviour especially at board level. Board members are expected to conduct themselves in a professional manner as their decisions affect the operations of the bank. The King 11 Report states that boards should be composed of majority independent directors in order to improve on transparency and independent opinion when making decisions. Auditors are required to be independent so that their opinion after the audit of the bank can be relied on by different stakeholders including shareholders who place reliance on auditors' opinion. The professional conduct of these two bodies has an impact on how banks perform and disclose information.

The wave of corporate failures was caused by directors in most instances and the success of most corporates was caused by directors. How different they are cannot be quantified besides to theorize that there are two schools of thought "stewardship and conflict of interest," which the researcher could not quantify. This created problems to understand how one can separate the two schools of thought. The most recent interesting failure of AIG and Lehman Brothers intrigues every researcher and scholar as these organizations were the leading advisors of risk management and investment banking.

Everyone knows how this story ends. Lehman Brothers, the once storied investment bank, collapses in the fall of 2008. Its bankruptcy—the largest ever—triggers a financial crisis, which sends the global economy into a tailspin. But the story of the bank's journey to its grave has never been so poignantly told as in *A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers* by Lawrence G. McDonald, a vice-president at Lehman from 2004 to 2008, and Patrick Robinson. While the crisis has spawned many books, McDonald's is among the first from an insider and is the front-runner on the subject of Lehman. He witnessed, often in amazement and disgust, the corporate dysfunction and hubristic leadership that led to the bank's demise.

However as a realist, the researcher had to reflect on how the concept of Ubuntu *(the spirit of humanity - based on the premise that the individual is entitled to respect because of his cordial coexistence with others, a hierarchical political ideology, but one based on an inclusive system of consultation at various levels)* affect human life and behaviour, (respect, which is grounded both in the nature of African people and in the nature of all races). The author then came to realize that directors are driven by the need to succeed and when they fail, some fail as a result of the behaviour of others while others fail as a result of their behaviour.

9.3 Look forward to document 4 and 5

Document 3 has prepared the qualitative framework on which the quantitative analysis will be based. The flow of arguments raised in this document will be tested using quantitative tests using (Muth and Donaldson 1998: 5 - 28) tools in document 4 cost – to – income ratio, and the ROCE and CFROTA model developed by (Dulewicz and Herbert 2004) in document 5, in testing the effectiveness of directors..

Document 1 stated that, triangulation model will be used to consolidate work done in document 3 and 4 supported by the literature review. Research questions will be answered, solutions proposed and new policies recommended. A proactive legal framework will be proposed as well in document 5.

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Appendices

Appendix 1 – Interviewee Profiles

ABSA Group

1. **Dr D C Cronje, *Dcom – Non Executive Chairman***
   Dr Danie Cronje is 59 years old with a Doctorate in Commerce (Dcom) and he is the chairman of ABSA Group since 1987. He is also the chairman for Sage Group, ABSA Foundation, ABSA Group Retirement Fund, and director of Idion Technology Holdings Ltd. His executive career dates back to 1975 when he joined Volkskas, where he held various positions in the Merchant Bank division. He became Deputy CEO subsequently CEO of ABSA after the name change until 1997. Danie has 31 years experience with ABSA.

2. **Dr S Booysen, *CA (SA), Dcom – Chief Executive Officer***
   Dr Steve Booysen is 42 years old with a Doctorate in Commerce and is Chartered Accountant. He is the CEO for ABSA Group since 2004. After completing his articles with Ernst and Young in 1983 he became a lecturer in accounting at the University of South Africa until 1988. He was appointed Senior Manager: Finance at TrustBank until 1994 when he was appointed General Manager: Group Finance at ABSA. He later joined ABSA Corporate and Merchant Bank where he rose to Deputy Operating Executive, the Group Executive Director before he was appointed Group CEO.

3. **J H Schindehutte, *Bcom (Hons), CA (SA), HDip Tax – CFO***
   Jacques is 46 years old and is the CFO for ABSA Group after joining the group in 1999 as Group Executive: Finance. He is responsible for Group Finance, office of the General Counsel, Group Economic Research, Investor Relations and Group Secretariat. He served his articles with Ernst and Young before joining Portnet and Transnet until 1999.

4. **Dr D Baloyi,** ***PHD (International Education Development) – Independent NED***

   Danisa is 50 years old and she is an Independent board member of ABSA Group since 2004. She currently sits on 8 boards and she is an Executive Director of the National Black Business Caucus.

5. **A S Du Plessis,** ***Bcom, CA (SA), HDip Tax, AMP – Independent NED***

   Attie is 62 years old and has been an Independent director since 1992. He chairs the Group Audit, Group Risk, Credit, and Board Lending Committees. He is also Chairman for Gencor Ltd, Sanlam Ltd, KWV Group Ltd and various other companies besides being an Executive Director for Sankop Ltd.

6. **L W Maasdorp,** ***BA, Msc Economics – NED***

   Leslie is 39 years old appointed in 2004 as a non-executive director representing the interests of the BEE Company Banke consortium. He is Chairman of Trans Caledon Tunnel Authority, South Africa Weather Services and sit on the boards of Coega Development Corporation, Johannesburg Property Company and Yard Capital

7. **T M C Sexwale,** ***Certificate in Business Studies - NED***

   Tokyo is 53 years old appointed to the ABSA Group board in 2001 representing the BEE consortium Batho Bonke. He is the owner and Executive Chairman of Mvelaphanda Holdings Pty Ltd, Chairman of Northam Platinum Ltd, Trans Hex Group Ltd, Gold Fields Ltd, former member of the ANC National Executive Committee and Premier of Gauteng.

8. **Group Secretariat – W R Somerville, *ACIS, ACMA, Dip Corp Law***

   William is 49 years old and is the Group Company Secretary since 1990.

FirstRand Group

10 T Ferreira *Bcom (Hons) B (B&A), MBA – Non Executive Chairman*

Gerrit is 59 years old and has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he was elected as executive chairman. When RMB Holdings was founded in 1987 he was appointed chairman, a position which he still holds. Following the formation of First Rand in 1998 he was appointed non-executive chairman. He is a member of the Council of the University of Stellenbosch.

Directorships

FirstRand – memberships Directors' affairs and governance committee Remuneration committee.

First Rand Bank Holdings – Chairman Glenrand MIB Momentum Group RMB Holdings – Chairman VenFin.

11 L Dippenaar *CA (SA), Mcom – Chief Executive Officer*

Lauritz is 58 years old and he graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent three years with the Industrial Development Corporation before becoming co-fonder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director. He was appointed managing director in 1988, which position he held until 1992 when RMB Holdings ("RMBH") acquired a controlling interest in Momentum Life Assurers, the fifth largest insurance company in South Africa at that rime. He was appointed as executive chairman of that company, a position he held until being appointed chief executive officer of First Rand in 1998.

Directorships

FirstRand – memberships Audit committee Executive committee – chairman

Discovery Holdings – Chairman First Rand Bank Holdings Momentum Group – Chairman OUTsurance – Chairman RMB Asset Management RMB Holdings.

12* P K Harris *MCom – Chief Executive Officer

Paul is 57 years old and has graduated from the University of Stellenbosch and joined the Industrial Development Corporation where he served for a number of years. He was a co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director of the bank. He spend four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 where he was appointed deputy managing director of RMB. In 1992 he took over as managing director and chief executive officer. He has been chief executive officer of FirstRand Bank Holdings since July 1999.

Directorship

FirstRand – membership's Executive committee

FirstRand Bank Holdings, Momentum Group, Remgro Limited, RMB Holdings.

13* K C Shubane *BA (Hons); MBA – Independent NED

Khehla is 51 years old and graduated at University of the Witwatersrand. Prior to this he was a student at the University of the North where his studies were terminated following his arrest for political activities, conviction and sentence which he served on Robben Island. Upon his released he was employed at Liberty Life for a short time. He served on various political organizations until joining the Centre for Policy Studies in 1988. He is an author and has co-authored several political publications and is a member of the board of the Centre for Policy Studies.

Directorship

FirstRand memberships – Directors' affairs and governance committee

FCB South African, Newhco, Nurcha, RMB Holding.

14 J P Burger *Bcom (Hons), CA (SA)*

Johan is 48 years old and he is the founding member of the bank. He has been with the bank since its incorporation as the CFO.

15* S E Nxasana Bcom, Bcompt *(Hons), CA (SA) – CEO FirstRand Banking Group

Sizwe is 49 years old, he started his career at Unilever. In 1989, he established Sizwe & Company, the first black owned audit practice in Kwazulu Natal. In 1996, he became the founding partner of Nkonki Sizwe Ntsaluba, the first black owned national firm of accountants and was national Managing Partner until 1998 when he joined Telkom SA as Chief Executive Officer. He held this position until 2005.

His experience in the financial sector includes being a NED of NBS Boland Bank, DBSA from 1995 to 1998, and Chairman of Mesele-Hoskens Insurance Group from 1994 to 1996. He joined the board of FirstRand Bank Holdings in 2003 and was appointed CEO from 2006. During the same year he was appointed a NED of FirstRand.

Board membership: FirstRand Executive Committee, Zenex Trust

16 **N N Gwagwa *BA (Fort Hare); MTRP (Natal); MSc (cum laude) (London); PhD (London) – Independent NED***

Nolulamo is 47 years old. She worked as a town planner in the private, public and NGO sector between 1981 and 1986, whereafter she proceeded to further her studies. In 1992 she joined the University of Natal as a senior lecture in the Department of Town and Regional Planning. In 1995 she was appointed as a deputy director general in the national Department of Public Works, where she was responsible for the national public works programme and the transformation of the construction industry. From 1998 to 2003 she was the chief executive office of the Independent Development Trust. She is currently an independent development consultant.

Directorship

FirstRand – memberships Directors' affairs and governance committee; Financial sector charter and transformation monitoring committee.

ACSA, Development Bank of South Africa.

17 **S E N Sebotsa *LLB (Hons); LSE; MA (McGill); SFA – NED***

Sonja is 34 years old. Her studying areas were Law, Business and Economics. She started her career in investment banking at Deusche Morgan Grenfell Johannesburg in 1997 working on M & A transactions, privatizations and BEE deals. She left Deutsche Bank almost six years later, after having spent some time working in their London and Tokyo offices. Leaving Deutsche Bank as a Vice President in late 2002 she took up an executive position with the WDB Group where her role largely involves negotiating and executing BEE transactions on behalf of the WDB's sole shareholder, the WDB Trust.

Directorship

FirstRand – membership Directors' affairs and governance committee

Adcorp Holdings, Makalani Holdings, Paracon Holdings, Willis South Africa.

18* Prof M W King *CA (SA); FCA – Independent NED and Chairman of the King 11 Report

He is 69 years old. He graduated at the University of Witwatersrand as a lawyer. He qualified as a chartered accountant with Deloittes. In 1961 he joined Union Acceptances and was deputy managing director from 1972 to 1974. He left to join Anglo American Corporation of SA, and was finance director from 1979 to 1997. He became executive deputy chairman in 1997, executive vice-chairman of Anglo American plc in 1999, and retired in May 2001. He served on the board of Barclays Bank DCO South Africa, whose name was changed in 1987 to First National Bank of Southern Africa.

Directorship

FirstRand – membership Audit committee – Chairman Directors' affairs and governance committee Remuneration committee.

FirstRand Bank Holdings, African Rainbow Minerals, Sturrock and Robson Holdings, The Tongaat-Hulett Group

Nedbank Group

19 Dr R J Khoza, BA (Hons) Psychology (UNIN), MA Markerting Management (University of Lancaster), EngD (University of Warwick), IPBM-IMD (Lausanne), PMD (Havard) – Non Executive Chairman

Reuel is 58 years old, a businessman, a director of companies, was appointed to the Nedbank board in 2005. He is a Chairman of Aka Capital, Nedbank Group, Corobrik, NEPAD Business Foundation and Murray and Robberts Cementation. He is also a board member of Nampak Limited, Protea Hospitality Group, Old Mutual Plc and Gold Reef Resorts Limited. Reuel is also a president of the Institute of Directors and in this capacity served on the King 11 Committee on Corporate Governance. He is founder of the Black Management Forum and former Chairman of Eskom.

20 M L Ndlovu, Dip LR (Unisa), MAP (Wits), EDP (North West), AMP (Havard) – NED Vice Chairman

Maduke is 56 years old, was appointed to the Nedbank board in 1994. He is a director of 20 companies besides being a member of four committees.

21 T A Boardman, Bcom, CA(SA) CEO

Thomas is 58 years old, was appointed in 2002 to turnaround the bank after its near collapse. He was previously CEO and executive director of BOE Limited and before that he was a director of Boardmans and Sam Newman Limited and BOE International Holdings Limited and Northwind Investments. He is a NED of Mutual and Federal Insurance Company Limited a subsidiary of Nedbank and The Banking Association of South Africa.

22 M Brown, Bcom (Hons), CA(SA) Financial Director

Mike is 41 years old, after qualifying as a CA at Deloitte and Touche he joined NBS Treasury department in 1993. He then moved to BOE corporate as General Manager and was later appointed MD in 1999. After the merger of Nedbank and BOE in 2002 he was appointed MD of Property and Asset Finance.

In June 2004 Mike was appointed FD and executive director of Nedbank Group. His area of responsibility include Asset and Liability Management, Group capital management, Tax, Financial reporting, and investor relations.

23 T C P Chikane, Bcom (Hons), CA(SA) Independent NED

Thenjiwe is 42 years old, was appointed to the board in 2006 and she is the CEO of MGO Consulting. She was previously Head of the Gauteng Department of Finance and Economic Affairs and she is a board member of Development Bank of Southern Africa, PetroSA and State Information Technology Agency

24 Prof B De Lacy Figaji, Bsc (Eng) Dip Tertiary Edu Med, DEd (Coventry University), DLitt (hc) (California)

Prof Brian is 63 years old, was appointed to the board in 2002. Brian is the Chairman of HHO Africa Pty Ltd, I & J Limited, MARIB Holdings. He is a board member of PetroSA, Cape Lime Pty Limited, ASSET (Educational Trust) (Trustee), Development Bank of Southern Africa and a former Vice – Chancellor of the Peninsula Technikon.

25 G T Serobe, Bcom (Unitra), MBA (Rutgers)

Gloria is 48 years old, was appointed to the board in 2002 and she is the CEO of Wipcapital. She is the founder and executive director of WIPHOLD. She was previously the executive director, finance at Transnet and serves on the boards including JSE Limited, FSC Council, Old Mutual Life Assurance Company South Africa Limited.

Standard Bank Group

26 **Cooper,** ***CA (SA) – Non Executive Chairman***
Derek is 66 years old and was appointed Chairman since 1993. He is also Chairman of Standard Bank Africa, Liberty Group and Liberty Holdings, Standard Bank Plc and president of Business Leadership South Africa.

27 **J Maree,** ***Bcom, MA (Oxford) PMD (Harvard) – Chief Executive Officer***
Jacko is 51 years old and was appointed CEO in 1997. He is a director of Standard Bank, Liberty Group, Liberty Holdings, Stanbic Africa Holdings, SBIC Investments SA, Standard International SA and Chairman of Standard Bank Plc.

28* S Macozoma, *BA, (Unisa) BA (Hons) (Boston) - NED

Saki is 49 years old, a businessman and he is a board member of 12 companies. He is a board member of many companies including Standard Bank Group, The Standard Bank of SA, Liberty Group, Liberty Holdings, Deputy Chairman of Safika Holdings, Chairman of Andisa Capital, Cahirman of Business Trust, Chairman Lliso Consulting, Chairman of Stalib, Tutuwa Strategic Holdings 2 and VW South Africa. He sits on different committees within the companies he is a board member.

29* C Ramaphosa, *BProc (Unisa) - NED

Cyril is 54 years old, a businessman and a board member of 12 companies. He is a board member of Standard Bank Group, Standard Bank South Africa, Alexander Forbes, Macsteel Holdings, Mondi South Africa, MTN Group (Chairman), MTN International (Chairman), SAB Miller, SASRIA, Shanduka Holdings (Chairman), The Bidvest Group (Chairman) and Tutuwa Strategic Holdings 1

30 Dr C Strauss, BA, PHD (Rhodes), MS(Cornell), AMP (Havard), FIBSA, DEcon (hc) (Rhodes, Dsc (hc) (Pretoria)

Conrad is 71 years old and was appointed to the board of Standard Bank Group in 1984. He is a board member of Standard Bank Group, Standard Bank SA, African Oxygen and Hans Merensky Holdings.

31 K Moroka, BProc, (Uni of the North), LLB (Wits)

Kgomotso is 52 years old and was appointed to the board of Standard Bank Group in 2003. She is a director of Standard Bank Group, Standard Bank SA, Electronic Media Network (M-Net), Gobodo Forensic and Investigative Accounting (Chairperson) New Seasons Investments Holdings and South African Breweries.

32 S Ridley, Bcom (Natal), CA(SA), AMP (Oxford)

Simon is 51 years old and he joined the group in 1999 and was appointed Financial Director in 2002.

Other Corporate Governance Practitioners

33 Advocate J Myburgh

John is 52 years old and trained as a lawyer and was admitted to the bench 32 years ago. He chairs a lot of boards and is a member of the SARB advisory board and he is a lecturer of law.

34 T Dixon

Tony is 53 years old and he is an executive director of the IOD. He is an advisor and sits on different boards. Tony is also a lecture of Corporate Governance

35 T Mboweni - South Africa Reserve Bank Governor

36 G Gono - Zimbabwe Reserve Bank Governor

37 X P Guma - Deputy South Africa Reserve Bank Governor

38 C L Dhliwayo - Deputy Zimbabwe Reserve Bank Governor

39 N Ncube - Deputy Zimbabwe Reserve Bank Governor

Appendix 2 - Questionnaires

2E2 ABSA Towers North
180 Commissioner Street
Johannesburg 2000

24 October 2006

The Board of Directors
All Banks

Att: Chairman of the Board

Subject: Doctorate in Business Administration Research

Introduction
My name is Cleopas Sanangura, working for ABSA as Consultant: Corporate Asset Finance based in Johannesburg (ABSA head office).

I am currently doing a DBA (Doctorate in Business Administration) and the topic I am researching on is as follows: ***Behind the boardroom door. The effectiveness of board of directors in creating shareholder value and the effect of shareholder activism in financial service sector in emerging markets. Corporate Governance in South Africa and Zimbabwe.***

My Research Objectives

b. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial sector and to investigate factors that affect good corporate governance practices. The factors will be used to assess why investors prefer other portfolios and why they perform differently while operating in the same environment. Companies to be covered are Barclays – ABSA, Standard Bank, First Rand Bank, Nedbank, Standard Chartered Bank, Commercial Bank of Zimbabwe (CBZ) and Stanbic.

c. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency
d. To establish if training and accreditation of directors can improve corporate governance practice in the financial sector.

It is a requirement that I have to contact interviews and do some observations on how the board contacts itself in executing its duties. I therefore request your permission to interview the following board members listed below including yourself. As you are the CEO, you have been selected to participate in this research and assist me in developing new knowledge on director effectiveness in emerging markets in the financial sector in South Africa. I am interested in your personal experience, knowledge, observations and opinions in this field. I would appreciate through your office if I can interview the directors of the bank as per the profiles attached.

I want to make it perfectly clear from the onset that complete confidentiality is guaranteed and that anything you might say in the course of the interviews will remain anonymous. Your contribution may be quoted in the study, but will not be attributed to you if need be. I propose that I will be recording all the interviews, for the sole reason of having an accurate account for transcribing which I intend to do in the next few days. I will wipe off all the tapes as soon as I have transcribed them and in the meantime I will be keeping them in a secure place.

I have some open ended questions that I propose to ask, which I am sending together with this introductory letter. There are issues that you may wish to contribute to my research, which you can submit under general comments. If you require any clarification at any stage, please do not hesitate to call me. My contact details are as follows:

Cleopas Sanangura
ABSA – Corporate Asset Finance
Tel: **+27 11 350 9440**
Fax: **+27 11 350 6195**
Mobile: **+27 82 943 8700**
Email: **cleopass@absa.co.za**

Research Objectives

a. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial sector and to investigate factors that affect good corporate governance practices. These factors will be used to assess why investors prefer other counters than others and why they perform differently while operating in the same environment. Companies to be covered are Barclays – ABSA, Standard Bank, First Rand Bank, Nedbank, Standard Chartered Bank, Commercial Bank of Zimbabwe (CBZ) and Stanbic bank.

b. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency

c. To establish if training and accreditation of directors can improve corporate governance practice in the financial sector.

Questionnaires

The Organization & Shareholder Activism

1. What are the main causes of Corporate Governance failures in Emerging Markets as compared to developed markets?
2. What are the factors/issues that shareholders take into account when considering the existence and effectiveness of Corporate Governance?
3. What are the important corporate governance attributes that influence performance of directors in order to meet shareholder expectations?
4. You mentioned sustainable value creation strategies in the 2005 financial report. How do you measure them?
5. Do the values, norms and beliefs of the board support the best use of the board's capabilities? How do the group's values, norms and beliefs affect a director's willingness to use his/her capabilities?
6. What has been the participation of shareholder in creating value to the bank and involved are they?

Environment

1. What makes the bank different from others?
2. If I we to appoint you CEO of another bank what impact will you make?
3. How has the regulatory framework affected performance of banks in the country?
4. Boards have been characterized as largely ceremonial bodies. What is you comment?
5. How do you manage conflict of interest as it relates to Agency theory and stewardship theory?

Directors

1. How do NEDs creating shareholder value and does the bank need them?

2. What type of qualities do you consider when appointing an individual to the board?
3. Will training and accreditation of directors create value and impact on Corporate Governance in the financial service sector and how?
4. How is power distributed among board members?
5. How do you measure individual and collective board performance?

Auditors

1. How do auditors creating shareholder value?
2. Can the bank operate with external auditors? What value do they add to the bank and to shareholders?

General Comments

2E2 ABSA Towers North
180 Commissioner Street
Johannesburg 2000

23 May 2007

The Chief Executive Officer
IOD
25 Wellington Road
Park Town
Johannesburg 2000

Att: Mr Tony Dixon

Subject: Doctorate in Business Administration Research

Introduction

My name is Cleopas Sanangura, working for ABSA as Consultant: Corporate Asset Finance based in Johannesburg (ABSA head office).

I am currently doing a DBA (Doctorate in Business Administration) and the topic I am researching on is as follows: ***Behind the boardroom door. The effectiveness of board of directors in creating shareholder value and the effect of shareholder activism in financial service sector in emerging markets. Corporate Governance in South Africa and Zimbabwe.***

My Research Objectives

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I want to make it perfectly clear from the onset that complete confidentiality is guaranteed and that anything you might say in the course of the interviews will remain anonymous. Your contribution may be quoted in the study, but will not be attributed to you if need be. I propose that I will be recording all the interviews, for the sole reason of having an accurate account for transcribing which I intend to do in the next few days. I will wipe off all the tapes as soon as I have transcribed them and in the meantime I will be keeping them in a secure place.

I have some open ended questions that I propose to ask, which I am sending together with this introductory letter. There are issues that you may wish to contribute to my research, which you can submit under general comments. If you require any clarification at any stage, please do not hesitate to call me. My contact details are as follows:

Cleopas Sanangura
ABSA – Corporate Asset Finance
Tel: +27 11 350 9440
Fax: +27 11 350 6195
Mobile: +27 82 943 8700

Research Objectives

d. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial sector and to investigate attributes that affect good corporate governance practices. The attributes will be used to assess why investors prefer other portfolios and why they perform differently while operating in the same environment. Companies to be covered are Barclays – ABSA, Standard Bank, First Rand Bank, Nedbank, Standard Chartered Bank, and Stanbic bank.

e. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency

f. To establish if training and accreditation of directors can improve corporate governance practice in the financial sector.

Questionnaires

The Organization & Shareholder Activism

7. What are the main causes of Corporate Governance failures in Emerging Markets as compared to developed markets?
8. What are the factors/issues that shareholders take into account when considering the existence and effectiveness of Corporate Governance?
9. What are the important corporate governance attributes that influence performance of directors in order to meet shareholder expectations?
10. You mentioned sustainable value creation strategies in the 2005 financial report. How do you measure them?
11. Do the values, norms and beliefs of the board support the best use of the board's capabilities? How do the group's values, norms and beliefs affect a director's willingness to use his/her capabilities?
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Environment

6. What makes the bank different from others?
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Directors

6. How do NEDs creating shareholder value and does the bank need them?

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8. Will training and accreditation of directors create value and impact on Corporate Governance in the financial service sector and how?
9. How is power distributed among board members?
10. How do you measure individual and collective board performance?

Auditors

3. How do auditors creating shareholder value?
4. Can the bank operate with external auditors? What value do they add to the bank and to shareholders?

General Comments

- Relevance of the King 2 Report
- Adv Myburgh Report
- Cross directorships in banks
- Independence

Nottingham Business School

In Association with

Nottingham College of Business, Law and Social Sciences

Doctorate of Business Administration

Document Four

Structured research methods

"Document four submitted in part fulfilment of the requirements of The Nottingham Trent University for the degree of Doctorate of Business Administration"

Authored by **Cleopas Sanangura**

Student Number: **YA008250**

Date: **October 2007**

List of Acronyms and Abbreviations

ABSA	Amalgamated Bank of South Africa
AGM	Annual General Meeting
AIG	American International Group
ANC	African National Congress
BEE	Black Economic Empowerment
CAGR	Capital Adequacy Gearing Ratio
CFA	Chartered Financial Analyst
CFROTA	Cash Flow Return on Total Assets
CG	Corporate Governance
CSR	Corporate Social Responsibility
DA	Democratic Party
DBSA	Development Bank of South Africa
DTI	Department of Trade and Industry
ELCC	External Loans Coordinating Committee
EDs	Executive Directors
FNB	First National Bank
IDs	Independent Directors
ISA	International Standards on Auditing
JSE	Johannesburg Stock Exchange
LSE	London Stock Exchange
MBA	Master in Business Administration
NEDs	Non-Executive Directors
N$	Namibia dollar
R	Rand
ROE	Return on Employed
ROI	Return on Investment
SEC	Stock Exchange Commission
SA	South Africa

SACP	South African Communist Party
SARB	South Africa Reserve Bank
Sec	Section
TSE	Toronto Stock Exchange
TSR	Total Shareholder Return
UK	United Kingdom
US	United States

List of Charts and Tables

Table of Contents

1 Terms of reference

This document aims to further the research done in document 3 and answer the quantitative research questions in fulfilling the application of the conceptual framework (Document 2: 25). A critical literature review (document 2) articulated different issues that affect the effectiveness of directors which has an impact on effectiveness of the board and on corporate governance.

This discussion will highlight the importance of participation of owners of banks in operations and the role that IDs and NEDs play in improving the effectiveness of the board. An assessment of the current measurement tools will be done for each bank and match this to the role of IDs and NEDs. The research questions will be revised in line with the new knowledge and contribution of respondents.

Details of the research methods applied to date and the remainder of the programme will be discussed on Chapter 2. The methodology will be influenced by realism, and positivist approaches that include quantitative and qualitative approaches to data collection and analysis. A modernist approach to corporate governance will be taken in order to add value to the existing knowledge through assessing the following research objectives:

a. Examining the effectiveness of the board of directors of banks
b. The role of shareholders, IDs, NEDs and auditors in the performance of different banks
c. Analyze the skills requirements for the banks and how they affect compliance issues.

d. Analyze the effect of recent changes to the legal framework and the proposed changes in the Companies Act and King 3 Report

1.1 Background information to the study

A number of theories of board behaviour have been propounded over a long period, dating back as far as the 18th century argued (Dulewicz and Herbert 2004: 263). A succinct review of these is provided by (Stiles and Taylor 2001), but three main theories are of relevance to this study in conjunction with the research questions and the conceptual framework.

a. ***Agency Theory*** focuses on the agent–principal relationship to further our understanding of the governing board document 2 and 3. The agency relationship is a contract under which one or more persons, the principals, engage another person, the agent, to perform some services on their behalf. This involves delegating authority to the agent. Agency theory incorporates important assumptions about managerial behaviour being self-interested, prone to moral hazard and evincing bounded rationality argued (Simon, 1976). According to (Stiles and Taylor 2001), the theory regards the board of directors as an instrument of control, which the author would test its functionality.

b. ***Stewardship Theory*** propounds that there is no conflict of interest between directors, owners and that to be successful the organization requires a structure that allows coordination to be achieved most effectively. Document 2 and (Muth and Donaldson

1998: 6 - 10) pointed out that Stewardship Theory, in contrast to Agency Theory, recognizes a range of non-financial motives of managers found in the occupational psychology literature, for example need for advancement and recognition, intrinsic job satisfaction, respect for authority and the work ethic.

c. The emergence of ***Stakeholder Theory***, according to (Gay 2002: 36), was prompted by the growing recognition by boards of the need to take account of the wider interests of society. Gay lists the essential premises upon which Stakeholder Theory rests. Citing (Jones and Wicks 1999: 206 - 221), as being, "the corporation has relationships with many constituent groups (stakeholders) that affect, and are affected by, its decisions; the theory is concerned with the nature of these relationships in terms of both processes, outcomes and focuses on managerial decision-making. The interests of all legitimate stakeholders have intrinsic value, and no set of interests is assumed to dominate the other".

Summarizing a long history of academic debate, (Stiles and Taylor 2001) pointedly noted, "The view that one theory by itself does not illuminate the whole spectrum of board endeavor receives strong support from examination of *their* [emphasis added] shortcomings". Presciently, (Pettigrew 1992: 178) opined:

. . . the study of boards and their directors has not been helped by over-ambitious attempts to link independent variables such as board composition to outcome variables such as board and firm performance. The research agenda . . . need not be guided just by studies testing the explanatory power of agency theory or theories of

managerial hegemony. The task is perhaps a simpler one, to . . . . provide some basic descriptive findings about boards and their directors.

"The gap between the contributions of theory and what practitioners are interested in seems to be widening. . . . Both Agency and Stewardship studies typically do not reflect the dynamics of governance – the interplay of power, conflict and ideology" argued (Tricker 1994: 55). This study is an attempt to narrow this gap. Whilst it seeks to provide some new evidence about the utility of three extent theories, its principal aim is to present evidence about real board practice alongside the company performance with which it is associated. It should, therefore, be of value to practicing directors, regulators, academics and it might illuminate a new direction in which theory might usefully be developed.

1.2 Study to test the theories

Although the author was unable to find in the literature any studies of the link between board *practice* and subsequent company performance, several studies have attempted to investigate the relationship between board *composition* and company performance. An article by (Korac-Kakabadse *et al.* 2001: 24) states:

. . . the analysis of 40 years of data from 159 studies in the financial and service sectors, carried out by Dalton and Daily, concluded that there is no clear evidence of a substantive relationship between board composition and financial performance, irrespective of the type of

performance indicators, the size of the firm or the manner in which board composition is measured. . . . most empirical studies are not theory driven and, of those that are, most are focused on structural dimensions of the board with only speculative inference of board behaviour.

However, one study has been selected for the development of taxonomy for styles of corporate governance, because the researchers concerned formulated a number of hypotheses to test the validity of Agency and Stewardship Theories. Muth and Donaldson (1998: 5 - 28), cited above, gathered data on the performance of 145 Australian companies (40 in the financial, 85 in the services and 20 in the resource sectors) between 1992 and 1994 on the following measures, which the author is going to use in this document in testing the effectiveness of directors of the four banks:

- *Return on Assets (ROA)*
- *Return on Equity (ROE)*
- *Profit*
- *Shareholder Wealth*
- *Sales Growth*

They performed a factor analysis on the data and identified two independent performance factors: Profit Performance and Shareholder Wealth. Sales Growth, a single item, did not load onto either factor but the authors believed that, if a second Sales Growth item had been entered, Sales Growth would have probably constituted a third factor. Regarding board composition, they gathered data on ten variables relating to Chairman duality; number of executive, NED and total directors; interest alignment; age; tenure (mean); external organization and director links; internal director links; and, highest number of director links. Again, a factor analysis on these variables produced two independent factors which they named:

Board Independence: *consisting of Chairman Duality; board size; proportion of IDs, NEDs; interest alignment with owners and average age of directors.*

Network Connections: *consisting of average number of external organization links; average number of external director links (Document 3: Diagram 5.1: 38); average number of internal director links and highest number of links of an individual director as discussed in document 3 diagram 1.1: 2.*

In order to test their hypotheses, the two board structure (composition) factors were correlated with the two company performance factors. Their main findings were that "the Agency theory predictions relating to performance were not upheld, while those of stewardship theory were supported" (Muth and Donaldson, 1998: 26), which was supported by the author in document 2 and 3. In particular, significantly better results were achieved by companies whose boards had fewer independent directors (NEDs) and where the roles of Chairman and CEO were combined. Smaller boards almost exclusively composed of executive directors seemed to protect shareholders' interests better than larger boards with a high proportion of IDs and NEDs argued (Muth and Donaldson 1998: 26) as will be reflected in this document. They concluded by advocating replication studies in the US and UK to see if their results stood up in countries with different boardroom structures and composition.

In a review of Muth and Donaldson's study, (Hunt 1998) draw attention to the importance of their results in respect of board theories and corporate governance codes of best practice, and pointed out that the study, "has reminded us that there is a dearth of research on how boards actually work". This research has also found out that there is now a thin line between agency and stewardship theories as a result of the level of experience, knowledge and training of current directors as compared to (Berle and Means' 1932) argument separating the two. Even though there is now a thin line between agency and stewardship theories as a result of professional contact, the agency paradox has been replaced by independence paradox argued (Hunt 1998: 7).

1.3 Independence Paradox

Many commentators compared the (Ahold bookkeeping scandal 2003) with (Enron 2002) and raised their concerns about the effectiveness of existing corporate governance structures. For example, in (*Het Financieele Dagblad* 2003) of 4 March, it was suggested that Ahold forced the Dutch to catch up with international corporate governance regulations. Although questions such as "Where were the auditors, independent and non-executive directors?" and "What were they doing?" (*The Financial Times*, 2 March 2002) are still being asked even today.

Scandals like (BCCI 1991, Enron 2002, WorldCom 2002 and Ahold 2003) are, however, not new argued (Hooghiemstra and Van Manen

2004: 314). In a study of 400 years of corporate governance history, covering the period 1602–2002, (Frentrop 2002) conscientiously shows that problems such as accountability of management and protection of the rights of (minority) shareholders have emerged since the foundation of the *Verenigde Oostindische Compagnie* ("Dutch East India Company"), a partnership that seems to be a "modern corporation" (Berle and Means, 1932) *avant la lettre*. Many of the corporate governance problems can be blamed on the fact that in corporations with dispersed ownership it is the managers who control the corporation and, consequently, are able to pursue their own interests. Several devices have been put forward to mitigate this – from shareholders' point of view – unwanted effect of the separation of ownership and control argued (Stiles and Taylor 2001).

Executive directors are responsible for the operation of the bank; non-executive and independent directors essentially fulfill two roles: *"strategic advisor and corporate watchdog"* argued (Short *et al*. 1999: 339, Blanco- Fernandez 1993, Tricker 1994, Maassen 1999, Weimer and Paape 1999 and Stiles and Taylor 2001). Scandals and mismanagement incidents like BCCI, Maxwell and more recently Enron, WorldCom and Ahold, however, demonstrate that auditors, independent and non-executive directors have not always carried out their watchdog role effectively as a result of (document 2 and 3) fraud and financial misstatements. Additionally, such events have led to the establishment of various committees, such as (Cadbury 1992, King 2 Report 2002, Greenbury Report 1996, Peters 1997, and Sarbanes – Oxley Act 2002), which have also failed to address the independence paradox.

These committees have contributed to the worldwide corporate governance debate. An important element in the debate is the effectiveness of independent and non-executive directors in monitoring a company's management. From the many discussions and reports in journals, newspapers and different markets, it is clear that non-executive directors have to be independent of ED for them to be effective in their monitoring roles argued (Peters Committee 1997 and OECD 1998). The question is how they can be independent when they are influenced by income they receive from the banks (document 3: 38, Diagram 5.1)

However, notwithstanding the emphasis on IDs and NEDs' independence in the various reports and "Codes of best practices", it remains questionable if IDs and NEDs are in practice able to effectively execute their watchdog role. First of all, ID and NED directorship is a part-time function and many non-executive directors serve on many other boards as well argued (McNulty and Pettigrew 1996, Maassen 1999 and document 3: 59). Furthermore, just like a full board of directors, a supervisory board only meets a few times a year, implying that non-executives spend only a limited amount of time to the company argued (Maassen 1999). This "makes it difficult for any outside, ID and NED to be fully informed about the affairs of a large, complex, fast-moving corporation" like a bank stated (Donaldson and Davis 1994: 157). Finally, IDs and NEDs have to rely on the information that is provided by the CEO to execute their function stated (Delfos-Roy 1997, Stiles and Taylor 2001).

The auditors and executive directors of banks are mostly members of the institute of Chartered Accountants NEDS, IDs and ED belongs to the same associations as reflected by (Document 3: Diagram 5.1: 38) and both derive income from the bank. Auditors provide audit and advisory services to the bank and derive income, hence calling banks key clients. Shareholders' are interested in the capital and dividend growth (dividend policy), which then affect the whole concept of independence.

Communities and other stakeholders like employees have little power in how income is distributed, hence have to benefit from the salaries and CSR expenditure. What causes the paradox is the scramble for the scarcy resources (income). Mitigating factor is that directors are regulated by their membership to the associations and are bound by the institutional ethics, which advocates for professional conduct argued interviewee 19. NEDs and IDs are business people whose businesses depend on the banks funding their financing requirements hence the conflict of interest affects their independence.

The continuous failure of banks in South Africa, Zimbabwe and other countries as a result of conflict of interest necessitated this research. In 2005 alone there was a crisis in Zimbabwe as six banks collapsed (Barbican Bank, Century bank, CFX, Time Bank, Trust Bank and Intermarket Bank). In South Africa nine banks collapsed (New Republic Bank Ltd, Ons Eerste Volks Bank Ltd, The African Bank Ltd, Real African Duroling Investment Bank Ltd, Regal Treasury Bank Ltd, Saambou Bank Ltd, Southern Bank of Africa, TA Bank of South Africa Ltd, and The Business Bank Ltd) at the same time as in Zimbabwe. Major reasons for failure were failure of the regulatory framework, abusive insider trading and related party transactions. The impact to the market was huge, with depositors failing to access their investments. The two economies nearly came to a standstill until the intervention of the two Governments who ended up injecting money in order to rescue the situation, which is the same situation in American and European counties {(USA US$700 billion) and UK GBP200 billion)} who have spend millions bailing out banks as a result of the Global credit crunch.

The paradox to this was that this was after the introduction of the Sarbanes Oxley Act of 2002, where investors had thought more stringent measures were in place to cab corruption and fraud. The SA Government had to inject over 200 billion rand in order to rescue the failed banks, which resulted in the formation of Amalgamated Banks of SA (ABSA). The amalgamation of failed banks was to make sure that they are supervised by the central bank and address the CG weaknesses. The same set up existed in Zimbabwe as most of the failed banks were consolidated into one bank Zimbabwe Banks Association Group (ZBAG), where the Government invested over US$100 million. The bailout plan has worked as ABSA and ZBAG have grown to be among the biggest banks in the Southern Africa region although shareholders suffered huge losses during the amalgamation process.

1.4 Research progress and policy change

This research was necessitated by the continuous failure of corporates and banks (BCCI 1991, WorldCom 2002, Enron 2002, Appendix 1 Document 2, Fidentia 2007, Trust Bank 2004) while there is constant growth in legislation as reflected in document 1: 7 and document 2:

10. With such a background, shareholders are more worried with the state of CG world over. The author managed to answer the qualitative research questions raised in document 2: 15 -16 and developed a conceptual framework document 2: 25, which will be revised in document 5.

Document 3 deliberated on the findings from respondents, who came up with necessary proposals in answering the research questions. What came out strongly was the training and experience of directors, which is a strong element to mitigate risk (fraud and corruption) and ethical issues in the banking industry. The conceptual framework developed in document 2: 25 and Appendix 7 will not be helpful if the skills level of directors is low. The implementation of the conceptual framework is based on triggering the mechanisms that produces an effective board. A concept of partnership in order to achieve societal and business objectives was proposed by (Demb and Friedrich Neubauer 1992). Nearly two decades of research finds little evidence that board or auditor independence enhances board effectiveness argued (Westphal 2002: 6 and Leblanc 2004). Tougher legislation; tighter control and regulatory reform (discussed document 2: 36) are insufficient as remedial measures to resolve problems of governance weakness that lead to corporate underperformance coined (Ingley and Van Der Walt 2003).

In trying to solve CG problems document 3 proposed policy change options, which included the findings from the interviews. The Audit Committee needs to be resourced so that it can play a major role in risk management and expressing an opinion on the going concern of the banks argued interviewee 3. Independence is a personal issue as human needs changes every time, hence the researcher's argument that there cannot be a board which is called independent. External Auditors and IDs should be set up as professional consulting boards to EDs so that EDs can tap into the skills and experience of the Auditors and IDs suggested interviewee 34.

Conflict of interest will continue to exist unless boards adopt the Stakeholder and Stewardship theories and those owners of banks are involved in the administration of the banks, were some of the findings of document 2 and 3. This is evidenced by two banks FNB and Investec, who have matured into corporate banks (Listed banks), where owners are involved at operational level. Continuous director training has been found to be a mitigating factor against agency theory, which results in board members bound by professional ethical conduct.

1.5 Researcher's role and position

Adding to this problem is the information asymmetry between executive IDs and NEDs board members discussed in document 1 and 2. Many authors writing on corporate boards emphasize that IDs and NEDs have to face a relative disadvantage when they monitor and provide advice: they are dependent on the CEO with respect to the information they need to perform their tasks argued (Lorsch and MacIver 1989, Donaldson and Davis 1994, McNulty and Pettigrew 1996, 1999, Stiles and Taylor 2001 and Lorsch 1995: 111) They also states that "superior knowledge about corporate matters provides even the most well intentioned CEO with a real power advantage over the outside directors". Furthermore, it has been suggested that executives are in the position to "colour" the information in such a way that they get what they want from the IDs and NEDs argued (McNulty and Pettigrew 1999, Stiles and Taylor 2001). For example, one of the NEDs (McNulty and Pettigrew 1999: 60) interviewed remarked:

"…. any non-executive is only as good as the executive will allow him to be. I will tell you now that any executive can kid any non-executive to do virtually anything. If he is really strong-willed, and he has all the facts, and so forth, it is jolly difficult for you to find out as a non-executive. You receive papers and whether they have all the facts in, you do not know".

The researcher supports these findings as this was found to be the case where the participation of shareholders was weak (Table 5.3.2). Audit Committees' role needs to be improved in line with the proposed policy changes in document 3, while training of directors should be every bank's priority in line with the SARB's new requirement.

1.6 Performance measurement tools

There exists a multitude of options for measuring corporate performance, including those pertaining to financial and non-financial performance. The author will use the traditional financial performance measurement tools used by (Muth and Donaldson 1998: 5 - 28) discussed above (1.2: 4) to answer the research questions and the hypothesis in measuring performance. In the case of the later and for the purposes of this research, preference is given to those concerned with shareholders' returns. (Muth and Donaldson 1998) contacted a similar research and used the accounting-based ROE and TSR (Shareholder wealth ratio). TSR fails to measure directly the efficiency with which banks generate profits from the assets with which they are entrusted, irrespective of how those profits are delivered to the shareholders through dividends or capital appreciation. ROE is a tool used to measure return on capital employed by shareholders using historical information, while ROA measures the return from the use of assets/resources owned by the bank. A higher ROA is an indication of an efficient balance sheet. Sales growth is a reflection of organic growth of the bank which results in higher profits if costs are maintained resulting in higher reserves for distribution to shareholders. In line with (Muth and Donaldson 1998), the researcher will be using the same traditional measurement tools in testing the effectiveness of each bank.

1.7 Recent structural changes

The collapse of (Enron 2002, WorldCom 2002 and Ahold 2003) resulted in confusion in the corporate governance field resulting in the rushing of the (Sarbanes – Oxley Act 2002) into law (Document 1: 7). After the failure of (DRD Gold 2006 and Fidentia 2007) the regulators instituted a commission to review the Companies Act, in SA, which has resulted in the King Committee reviewing the King 2 Report by developing King 3 Report due to be published in 2009.

All four major banks (ABSA, FNB, Nedbank and Standard Bank) under this study are now required to be audited by two audit firms each year.

This was done as a result of audit firms failing to exercise their independence and income threshold of 10% as required by ISA. Audit fee levels had diluted auditor independence, which has resulted in this new requirement. This is a desperate move as this law may not improve independence (document 3: 38).

1.8 Hypothesis

a. There is a poor association between a bank's performance as judged by traditional measurement tools (*Return on Assets (ROA), Return on Equity (ROE), Profit, Shareholder Wealth and Sales Growth)* and the viability and sound governance of the bank.
b. There is an association between the degree of independence of NEDs, Auditors and IDs and the effectiveness of boards.
c. There is an association between board style (Professional, Representative, country club and Passive) (Table 2,4:30) and the performance of banks

2 Research methods and approach

According to (Collis and Hussey 2003: 55) research methods refer to the various means by which data can be collected and/or analyzed. They identified the following issues as important; why the data was collected, when it was collected, how it was collected and how it will be analyzed. This is used here as a framework for reporting the gathering of data sets analyzed at this stage of the research.

This section is organized by data set; in each case the methods are reviewed prior to the findings being reported. The section begins with discussion of the research problem, progression data and concludes with the analysis of the effectiveness of each board.

Bank performance information (financial statements) is collected by the researcher and different analysts as progression data. The collected data is secondary data mostly from the financial statements and commentaries by analysts with the intention of investigating the hypothesis and research questions.

2.1 Philosophical basis

The epistemological paradigms of interpretivism or phenomenology and positivism that constitute the philosophical poles of management research were the subject of considerable discussion in Document 3. However it should not be inferred from this document's being based on quantitative research methods that the author, though not being hermeneutically inclined, has assumed a positivist stance in its commission. The investigative processes reported here do indeed involve the establishment of theories and the construction of hypothesis that amount to the "*normal process under a positivist paradigm"* (Collis and Hussey, 2003: 56) but as (Jankowicz 2005: 122) cautions:

> "i*t is very important not to confuse* […] *two distinctions: that between positivist versus interpretivist ontology and epistemology on the one hand and between qualitative versus quantitative on the other."*

According to (Collins and Hussey 2003: 47) there is '*considerable blurring'* between the positivist and interpretive philosophies. The same authors went on to contend that,

> '*the positivist and phenomenological paradigms are two extremes and very few people would operate within their pure forms. There are* […] *not just two paradigms but a whole range.'* (Collis and Hussey, 2003: 51), hence the author chose the phenomenological paradigms.

Within this range is the stance to which the author intuitively leans, that of realism. The adopting of this position is not based on a desire to 'cop out' by evading the extremes, like voting the DA as an alternative to ANC and SACP, but on the inherent nature of the realist position.

Realism, suggests (Fisher 2004: 15):

> "*retains many of the ambitions of positivism but recognizes, and comes to terms with, the subjective nature of research and the inevitable role of values in it. Realism still aims to be scientific*

> *but makes fewer claims to knowledge that perfectly mirrors the objects of study."*

According to (Saunders *et al*. 2003: 85) realism:

> "*shares some philosophical aspects with positivism* [but] *also recognizes that people themselves are not objects to be studied in the style of natural science.* [It] *recognizes the importance of* […] *subjective reality* [in] *seeking to understand broader social forces, structures of processes."*

(Bryman and Bell 2003: 15) argues that,

> *"realism shares […] two features with positivism [empirical and critical realism]: a belief that the natural and social sciences can and should apply the same [kinds] of approach to collection of data and to explanation, and a commitment to the view that there is an external reality to which scientists direct their attention (in other words, there is a reality that is separate from our description of it)."*

These authors argue that realist philosophy is by no means unusual in management research, which they suggest is

> "*often a mixture between positivist and interpretivist, perhaps reflecting the stance of realism.'* (Saunders *et al*., 2003: 85). (Fisher 2004: 218) argued that, *"epistemological realist believes that universals have a reality that [is] independent of how people talk about them."* It is within this context that the researcher took an independent view on factors that affect corporate governance and the behaviour of directors.

The researcher took this stance after recognizing that corporate governance and strategy cannot be measured and studied in the same way as can physical and chemical processes. In establishing this stance the author was somewhat taken aback by (Jankowicz's 2005: 110) bald assertion that '[p]*ositivism is realist,'* Reading on it seemed that he was using the term to reflect the ontological basis of positivism, viz. a *reality* of truths that exist independently and are discoverable by anyone adopting a given analytical procedure. This contrasts with the sense in which the author had understood the use of realism, namely that it conveys the importance of being *realistic* in seeking knowledge about complex organizational entities and contexts.

(Easterby-Smith *et al.* 2002: 32) used realism in contradistinction to relativism in terms of the ontological basis of the positivist epistemology of science. They define traditional realism as the stance holding that,

> "*the world is concrete and external, and* [...] *science can only progress through observations that have a direct correspondence to the phenomena being investigated."*

Their applying the contrasting position of relativism to social science seems to cover the same terrain as the descriptions of realism previously cited, to the point of implicit synonymity. They describe critical realism, which according to (Fisher 2004: 16), "*shares the ambitions of realism"* as a *'variant of the relativist position'* (Easterby-Smith *et al.* 2002: 33). For (Easterby-Smith *et al* (2002: 33), the subjectivity of knowledge is inherent in the relativist stance; according to them adherents of the position regard facts as '*depending on the* *viewpoint of the observer.'* The methodological implications of relativism are that:

> '*the assumed difficulty of gaining direct access to* 'reality' *means that multiple perspectives will normally be adopted, both through* 'triangulation' *of methods and through surveying viewpoints and experiences of large sample of individuals.'* (Easterby-Smith et al., 2002: 34)

The relationship between realism, positivism and the field of study made it impossible for the researcher to consider other research methods as they do not fit into this type of research. Epistemological considerations loom large in considerations of research strategy, to a large extent; these revolve around the desirability of employing a natural science model versus interpretivism. Ontological considerations, concerning objectivism versus constructionism, also constitute important dimensions of quantitative contrast. Relevance is taken to be assessed from the vantage point of the importance of a topic within its substantive field or the contribution it makes to the literature on the corporate governance field. It is within the philosophical framework of realism/relativism that this stage of the project was launched. It appears to offer substantial congruence between the outlook of the researcher and the sphere to be researched.

2.2 Research approach

The research approach used in empirical work reflects and influences the relationship the researcher conceives between theory and data. According to (Saunders *et al.* 2003: 85) and (Bryman and Bell 2003: 9) the deductive approach is that the development of theory and hypotheses is followed by the design and implementation of a research strategy to test those hypotheses. In contrast the inductive approach involves building theory from data. They indicate that the former is associated with positivism and the latter with interpretivism, but consider these connections to be "*potentially misleading and of no practical value*."

Typically research undertaken based on the deductive approach involves a sequence or progression. (Jankowicz 2005: 111) describes this process, the hypothetico-deductive method as involving the generation of hypotheses from theory, the operational definition of the hypotheses, the measurement of appropriate variables, and the testing and verification of the hypotheses, which has a bearing in CG today. The characteristics of the approach include "*the search to explain causal relationships between variables*", *the researcher being "independent of what is being observed*," the need for concepts to be "*operationalised in a way that enables facts to be measured quantitatively*," and the sample size being large enough for justifiable generalization argued (Saunders *et al.,* (2003: 86 - 7).

(Easterby-Smith *et al.* 2002: 47) consider that

> "*the main practical advantage of the hypothesis-testing approach* […] *is that there is initial clarity about what is to be investigated."*

(Saunders *et al.* 2003: 90) suggest that deductive work is easier to plan and speedier to execute than inductive research, but caution that "d*ata collection is often based on 'one take.''*

The drawbacks of the approach identified by (Easterby-Smith *et al.* 2002: 47) are that "*its contribution may be quite trivial'* and that *if the results are inconclusive or negative* it *can give little guidance on why this is."* (Collis and Hussey 2003: 54) argue that the type of design inherent in the deductive approach

> *"imposes certain constraints on the results and may ignore more relevant and interesting findings."*

The deductive approach has also been criticized because it involves exploring causal relationships between variables "*without an understanding of the way in which humans interpret* […] *their social world"* and it tends to '*construct a rigid methodology that does not permit alternative explanations of what is going on',* that is has *'an air of finality about the choice of theory and the definition of the hypothesis' argued (Burger 2007: 4)*. Alternative theories might emerge in its application but *'these would be within the limits set by the highly structured research design'* argued (Saunders *et al.,* (2003: 87).

The deductive approach discussed in document 2 and 3 also appears to be compatible with the application of the study method in this project, a method which (Easterby-Smith *et al.* 2002: 49) describe as occupying "*an intermediate position*" between the experimental design they align with positivism and the fieldwork they associate with interpretivism.

2.3 Merits for choosing the realism approach

The approach tries to match the study of CG and strategy to Chemical and physical processes. Secondary data *[financial statements]* from the banks under review will be used in trying to answer the research questions and the hypothesis. (Saunders *et al.* 2003: 72) argued that, realism approach is based on the way people experience social phenomena *[an attempt to understand what is happening in the CG field and why it is happening]* in the world in which they live.

This approach will try to test the efficiency of the existing CG systems using the traditional financial measurement tools within the banks in answering research questions on page 26 and 27 by interviewing practitioners in the field. Thirty-five respondents have been identified for the purpose of this research. The population (Document 3: 13 and 29) from which the sample group was taken was classified as Chairmen (…. strategic direction of the bank), CEOs (… strategy execution), NEDs (... representatives of different shareholder groups), IDs (… professionals, business people and other stakeholder representatives), Financial Directors (… internal controls, financial information and reporting) and Company Secretaries (… custodians of registers, minutes, induction and training of directors and public officers) of each bank. Different sets of information were obtained from a different class, which assisted the researcher to focus on important roles played by each position in the bank. Cross bank analysis was easier as similar positions were cross referenced to each other. The classification of these respondents assisted the researcher in questioning respondents according to their role in the bank in addressing different themes.

Practitioners in the field were identified including M King (King 2 Report Chairman), Advocate J F Myburgh (Myburgh Report), Dixon director (IOD), Reserve Bank Governors and the Registrar of banks. The study was interview based research, where there was need for face to face discussion as the questionnaires were open ended. The total group sample was five groups from a population size of 40 respondents. The 40 respondents were put into groups for example all Chairman were one group, CEOs and FDs another and so forth. This size was considered to be representative of the population.

Four major banks (ABSA, FNB, Nedbank and Standard Bank including their subsidiaries in Zimbabwe) participated in the research and the two Central banks (SARB and RBZ), who provided very important information on regulation, director training and compliance. The conceptual framework was not reviewed in order to test the themes discussed in document 2 in this research. Response rate was 46%, which was below expectation. This was as a result of unavailability of respondents and confidentiality of banks considering that the researcher works for one of the banks, hence directors from other banks were not willing to discuss any issues relating to their bank.

(Bhaskar 1989: 4) argued that this approach accepts neither a constructionist nor an objectivist ontology and instead takes the view that the social “world is reproduced and transformed in daily life.” The researcher will endeavor to produce a new thinking in the corporate governance field using these methodologies. The positivism approach was found to be suitable as it is an epistemology that advocates for the application of the methods of natural sciences, hence the researcher is looking at social science methods.

3 Research problem and analysis

The convergence of opinion in the normative literature for an active role of boards in strategy and organizational performance is not as clearly reflected in the academic literature (Document 2). Despite considerable scrutiny from researchers, there is little consensus on the behavioral dynamics of boards and on how they impact on the development and execution of firm strategy and performance argued (McNulty and Pettigrew 1999: 47, Golden and Zajac 2001: 1087). The research efforts that have developed from the active and passive schools (Document 2: 29) have followed different agendas and led to different conclusions argued (Golden and Zajac 2001: 1080). In fact, (Rindova 1999: 953) has described the evolution of research on board's performance and strategy as following a dialectical sequence from a thesis that managers dominate directors to an antithesis that directors should control managers.

Managerial hegemony theory [defined …boards are a legal fiction dominated by management…]_found early expression in the work of (Berle and Means 1932), but it was (Mace's 1971, Vance 1983, Lorsch and Maclver 1989) study that set the agenda for the passive school of thought. Mace interviewed 50 directors of medium and large US corporations and found that boards only impacted on strategic decision-making in times of crisis and that they were otherwise controlled by chief executive officers. Other scholars followed Mace's approach with similar results (Norburn and Grinyer 1974, Pahl and Winkler 1974 and Rosenstein 1987), concluding that boards provided little strategic direction and that this role rested primarily with the chief executive officer. Recognizing that these results were largely driven by the power imbalance between management and boards, the latter were termed "creatures of the CEO" (Mace 1971) who serves merely as rubber-stamping function (Herman 1981) added.

Research in the early 1990s continued to position the strategic role of boards in a more active light. Survey research by (Demb and Neubauer 1992) with UK and European companies found that 75 per cent of respondents considered setting strategy as the main function of boards. However, qualitative research by these scholars demonstrated that the degree of board involvement was dependent on the strategy formation process and the relative power of the chief executive vis-à-vis the board – a more emergent strategy formation process was associated with a more powerful chief executive officer and less influence by the board on strategy affecting their effectiveness.

However, while these studies demonstrated a growing recognition of the importance of boards' involvement in strategy, they did not address the nature of this involvement. Insight into this aspect came from (Demb and Neubauer 1992: 55), who proposed three archetypes for boards based on their overall role portfolio – ***the Watchdog, the Trustee and the Pilot*** – and elaborated these characterizations relative to the strategy role. The Watchdog board focuses primarily on monitoring and evaluating strategy post-implementation; the Trustee board plays a limited role in the initiation of strategy, but a substantive role in analyzing options, monitoring and evaluating results; and the Pilot board plays a more substantive role in all areas. These scholars characterized this progression of involvement as a continuum, a notion that subsequently gained prominence in the normative literature (Ingley and Van de Walt 2001), which has failed to match performance to the effectiveness or relevance of the board.

3.1 Research questions and Conceptual framework

Document 4 will be answering research questions listed below in conjunction with earlier research questions discussed in document 1, 2 and 3. Ingley and Van Der Walt (2001) assisted the researcher with five main attributes of directors as:

- Integrity
- leadership skills - team player/communicator
- analytical understanding
- specialist skills and knowledge
- thinker - open-minded/strategic perception and decision-making ability.

From a report published by the (IOD, UK 1995 and Davies 1999) adds the following key competencies for building an effective board, which will assist the researcher in analyzing and answering research questions and developing a new conceptual framework. The attributes are:

- skill in communicating
- effective interaction with others
- ability to plan, delegate, appraise and develop others
- focus on achievement through risk taking
- resilience
- independence (especially for non-executive directors).

The research questions which will be answered in this document 4 and 5 will include among others the following:

a. How do boards fulfill their strategy role and are they necessary?
b. How is the strategic role affected by contextual factors in the firm's internal and external environment?
c. Does director experience and training matter in the effectiveness of the bank and transparency?
d. How does the strategic role relate to bank performance?
e. What is the impact of the traditional financial measurement tools have on evaluating the effectiveness of the board?

What is clearly apparent from the dialogue in the literature review (Document 2) and the conceptual framework (Appendix 7) is that, while there is a slow gathering convergence on the view that boards do have a definite responsibility and a key role to play in corporate strategy, there is no consensus on the extent or nature of that role argued (Helmer 1996). The direction of current thinking supporting the need for boards to acquire a strategic orientation is driven by the dynamics of economic, technological, political and social change which are global in magnitude.

It is the nature, scope and intensity of this change and the attendant demands for higher levels of corporate performance that is leading to a need for boards to focus on strategic issues and how best to equip themselves and their organizations to deal effectively with the emerging challenges. If organizations are to perform according to stakeholder expectations in an environment of increasing strategic change and uncertainty, their boards have a governance responsibility to ensure they identify and then build or acquire and maintain the necessary capabilities to lead their organizations toward those goals and ambitions argued interviewees 3, 18 and 19.

3.2 The hypothesis (Sec 1, 8) and the research questions

(Zikmund 2003: 44) defined a hypothesis as an unproven proposition or supposition that tentatively explains certain facts or phenomena, a proposition that is empirically testable. The propositions discussed in Sec 1.8 above will be discussed together with the research questions (3.1 above). Formulating a series of research questions and hypotheses can add clarity to the statement of the business problem argued (Zikmund 2003: 98). Research questions are the researcher's translation of the business problem into a specific need for inquiry, which document 4 and 5 will endeavor to answer.

3.3 Developing measures of financial performance

Why financial statements are useful asked (White *et al* 2003: 2). Their answer was that, financial statements help investors and creditors make better economic decisions. The researcher highlighted in document 2 that financial reporting are the root cause of information asymmetry and corporate governance failures, which was supported by (White *et al* 2003: 2, Brighham and Gapenski 1994: 653,Correia *et al* 1993, Rodriguez and Carter 1984: 333). "Financial statements are, at best, only an approximation of economic reality because of the selective reporting of economic events by the accounting system, compounded by alternative accounting methods and estimates added (White *et al* 2003: 2). The tendency to delay accounting recognition of some transactions and valuation changes means that financial statements tend to lag behind reality and is not perfect."

"The role of a director is not easy in SA and Zimbabwe in the light of recent corporate scandals as per accounting experts, (Temkin 2006) supported the above argument. A director's life used to be far more glamorous with lavish pay for little time spent in the boardroom and plenty of overseas trips and golf at first class resorts. Executives sat on 10 to 15 boards. But nowadays it has become *risky business*. Since the (Enron 2002 and WorldCom 2002) scandals, directors have become far more reluctant to warm the boardroom seats. A raft of rules, regulations and stringent legislation has forced executives to re-examine their role" argued interviewees 6, 11, 24 and 33.

Financial reporting should provide information that is useful to present potential investors, creditors and other stakeholders in making rational investment and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence argued interviewees 2, 3, 10, 12, 14, 21, 22, 27, 28 and 34. Based on these financial weaknesses the research will analyze the existing traditional financial measurement tools in analyzing performance of banks by looking at the balance sheet, income statement and cash flows. The following tools will be used in this document to test the effectiveness of boards that lead the banks:

- Return on Assets (ROA)
- Return on Equity (ROE)
- Profitability
- Shareholder Wealth
- Sales Growth

3.4 Developing a rating for CG

The researcher developed a model of rating corporate governance in the banks after considering the performance of each bank and its structure using tools above. The model assesses the role of independent directors, NEDs and shareholders in the performance of the bank.

Corporate Governance Matrix

	Judgment	**High**	**Low**
High	• Active Shareholder participation • High levels of board experience, skills and development programmes • Highly technical and professional • Level of independence • Level of transparency • Stakeholder mapping • Entrepreneurial	Professional board	Representative board
Low	• Little Shareholder participation • Low levels of board experience, skills and development programmes • Less technical and professional • Level of independence • Level of transparency • Stakeholder mapping	Country club board	Passive board

Table 2.4: Corporate Governance rating system

"The pressures for improving board performance are growing too strongly for them to be stopped argued (Garratt 2003: 207). What is now obsolescent, and will soon be obsolete, is the all-too-common notion that a few amateur friends of the CEO and Chairman can enjoy some good food and wine, lots of golf and somehow fit in a bit of time to give guidance to the company and add value for the owners in the long term." The model below positions each bank in a category according its CG structure, performance and profitability, which is measured against board performance. The professional bank is the most effective board with lower cost to income ratio and higher ROE, ROA, sales growth and shareholder wealth. The passive bank is the one with most corporate governance weaknesses.

3.5 Developing Time series and analyzing events

Adding to the rating system, the researcher will analyze each bank using its five year published historical performance in order to come up with the most efficient and effective bank. The five year period gives a constant history of how each bank has been managed and performing. Efficiency and effectiveness will be measured based on the five year review using the traditional financial analysis methods. IDs and NEDs' contribution will be analyzed based on the events during the review period.

Time series is a set of observations on a variable's outcomes in different time periods for example the five year performance review. Time series as a tool is used to explain the past and predict the future of a time series argued (DeFusco *et al* 2004: 516 and Newbold 1991: 714). The review period will be linked to the role played by IDs and NEDs in that trend by each bank.

3.6 Selecting sample banks

The researcher identified four major banks operating in SA and Zimbabwe (document 1 and 3: 13) using the basis that all the four banks operate in SA and Zimbabwe. The four banks observe the requirements of the (King 2 Report 2002); they are all listed on the JSE and ZSE. We take sample for one or two reasons argued (DeFusco *et al* 2004: 286) and here the reason being to narrow down the population so that the study can be economically efficient. Selected banks were ABSA (Barclays), FirstRand Bank (FNB) (CBZ), Nedbank (MBCH) and Standard Bank (Stabic Bank) as they operate in both countries. An additional bank will be included in this document (Investec Bank). Investec Bank is an owner managed bank like FirstRand Bank (FNB) and its inclusion is to assist in analyzing how owner managed banks perform against agent managed.

Within these banks, the researcher selected CEOs, Financial Directors and Chairman for Audit Committees as respondents to this document's questionnaires and each was interviewed. This sample is representative of the total population as they are the board members responsible for the preparation of the financial statements.

3.7 Requirements from interviewees

- **Chairman**

  The Chairman of each bank was require to discuss his relationship with the board, executive directors, the role of Audit Committee, External Auditors, independency and how the bank operates. They also gave an insight into the environment in which banks operate and how the environment affects corporate governance practices.

- **CEO**

  Each CEO was required to discuss his relationship with the board, the history of the bank, performance and its future outlook. The issues of skills, training and politics were discussed

- **Financial Director**

  The financial director of each bank was required to provide the financial statements and giving explanations on the bank's financial performance. Most of the activities which have a financial impact were discussed.

- **Chairman of Audit Committee**

  Discussed internal controls, reporting requirements, risk management policies and the role of auditors (internal and external), role of internal auditors.

- **Company Secretary**

  Discussed the legal framework in which banks operate and how boards function.

4 Research findings

Secondary data was used in this research as the published financial statements of the banks were the primary source of information. In analyzing the financial statements, the Financial Directors were the main contacts and respondents to the researcher's questions (Appendix 5). ROA measures the performance of assets owned by the bank in generating income. Constant growth of assets is a reflection of shareholder value growth argued interviewees 1, 2 and 3.

4.1 ABSA (Barclays) performance analysis

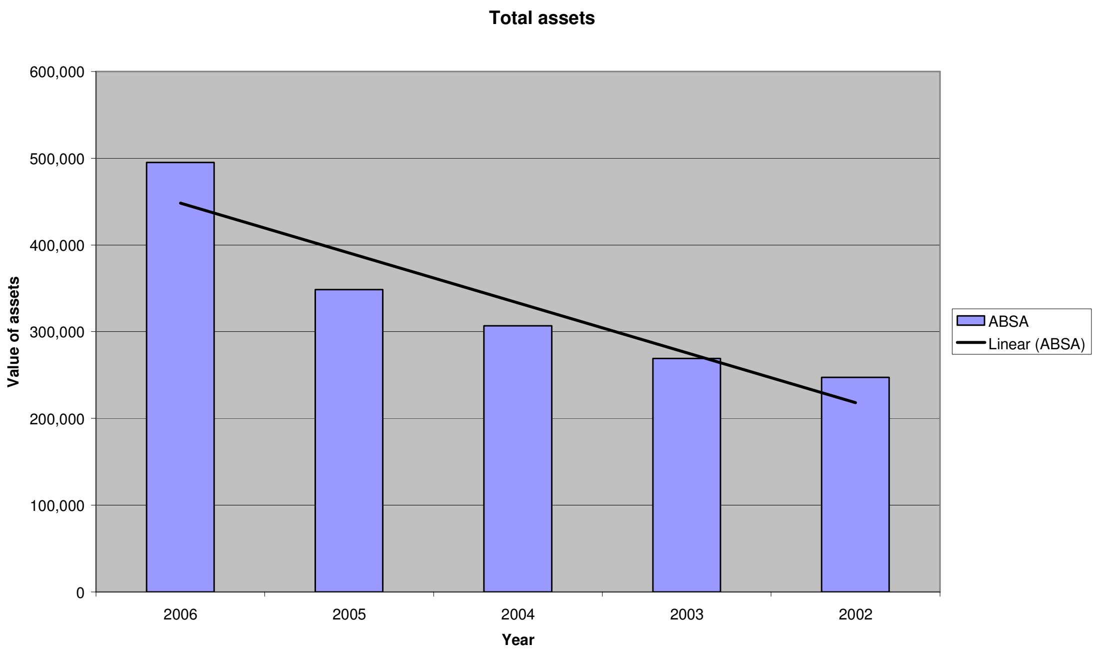

Chart 4.1.1: *Data source: 2006 Financial Statements*

ABSA (Barclays) total assets grew over the five years, year on year by 50% resulting in a constant growth of revenues and profitability (Appendix 1). The growth in assets has not been constant with the growth in revenues and profitability as a result of more non-performing assets and high volume low margin strategy. ABSA derives 46% of its bottom line from retail banking where margins are thin and require more employees, which results in low income per employee argued interviewees 1, 2 and 3. This strategy has a negative impact on the cost to income ratio although there has been a shift as reflected by Chart 4.1.1, 4.1.2 and 4.1.3 as a result of the Barclays acquisition of ABSA. The change in strategy has resulted in profit for the year growing by 41% in 2006, which is expected to be higher in 2007 as a result of reducing non-performing assets.

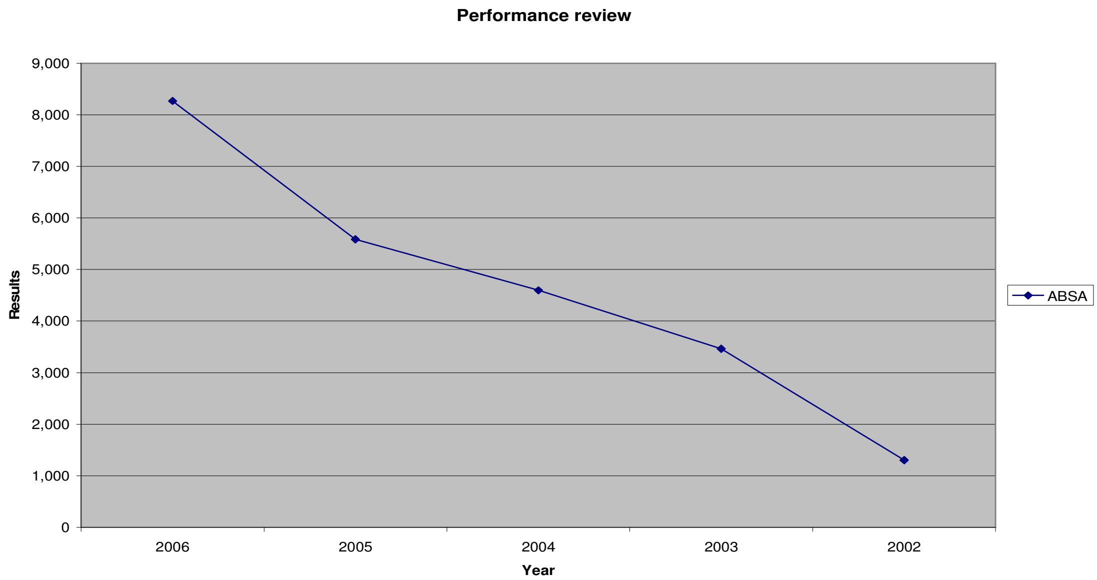

Chart 4.1.2: *Data source: 2006 Financial Statements*

The group increased headline earnings by 25, 3% (23, 3%) in 2005, which outperformed the group's objective of delivering real earnings growth of 10% argued interviewee 1, 3 and 8. Diluted headline earnings per share increased by 2,8% in 2006 (5,1%) in 2005 as a result of the value of the options issued to Batho Bonke Capital Pty Ltd contributed interviewee 7. The constant growth in revenues and profits had a positive impact on the ROE, which has a positive correlation with the growth in revenue, profits and cost to income ratio Chart 4.1.4 and Appendix 1.

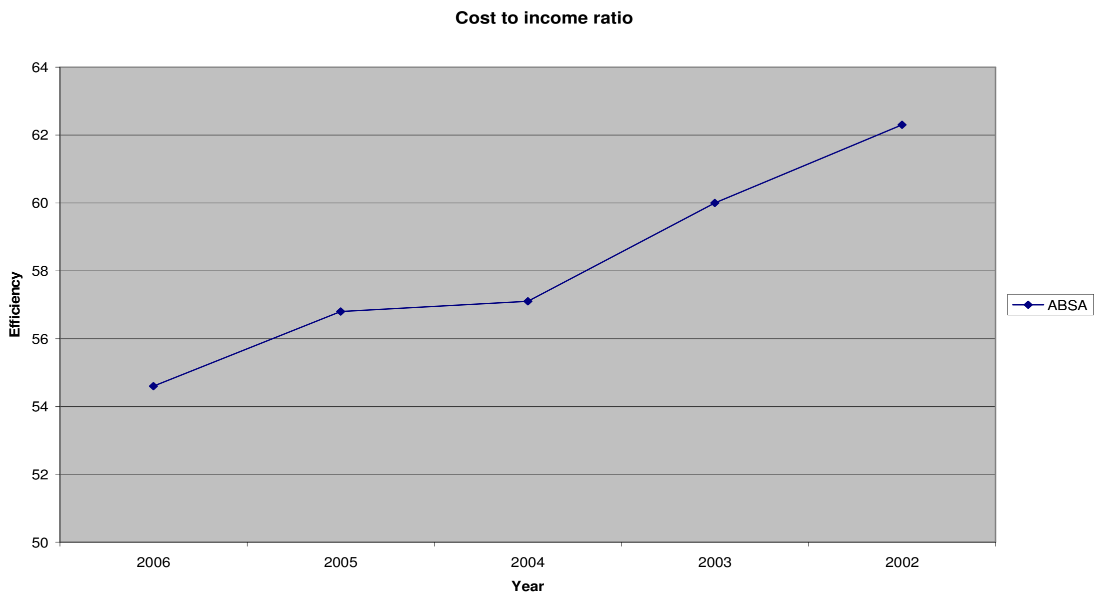

Chart 4.1.3: *Data source: 2006 Financial Statements*

The lower the cost to income ratio the profitable the bank becomes Chart 4.1.3 and interviewee 2 as this is one efficient measure of board effectiveness. Constant decline of this ratio results in the growth of profitability of the bank and increase in cash flows as reflected in document 5. A decline in non-performing assets results in a lower cost to income ratio, which had a positive impact on the performance of ABSA argued interviewee 2 and 6.

ABSA Performance Summary

	2006	**2005**	**2004**	**2003**	**2002**
Sales Growth (000)	38,368	27,232	28,901	30,299	24,517
Total Assets (000)	495,112	348,686	306,848	269,064	247,300
Profit for the year (000)	8,266	5,585	4,596	3,461	1,306
Cost to income (%)	54.6	56.8	57.1	60	62.3
ROE (%)	27.4	25.2	24.6	21.4	12.9

Table 4.1: *Data source: 2006 Financial Statements*

Table 4.1 and Chart 4.1.4 depicts a positive correlation, which shows that if the cost to income ratio is declining, revenue, profits, assets and ROE will be growing, which results in shareholder value and dividend growth. Conventional measurement tools neglect the growth in cash flows, which is a proper measurement of shareholder value growth. Chart 4.1.4 shows the positive effect of the declining cost to income ratio has on ROE. If the cost to income ratio continues to decline, ROE will continue to grow until such a point ROE will be above cost to income ratio as reflected below.

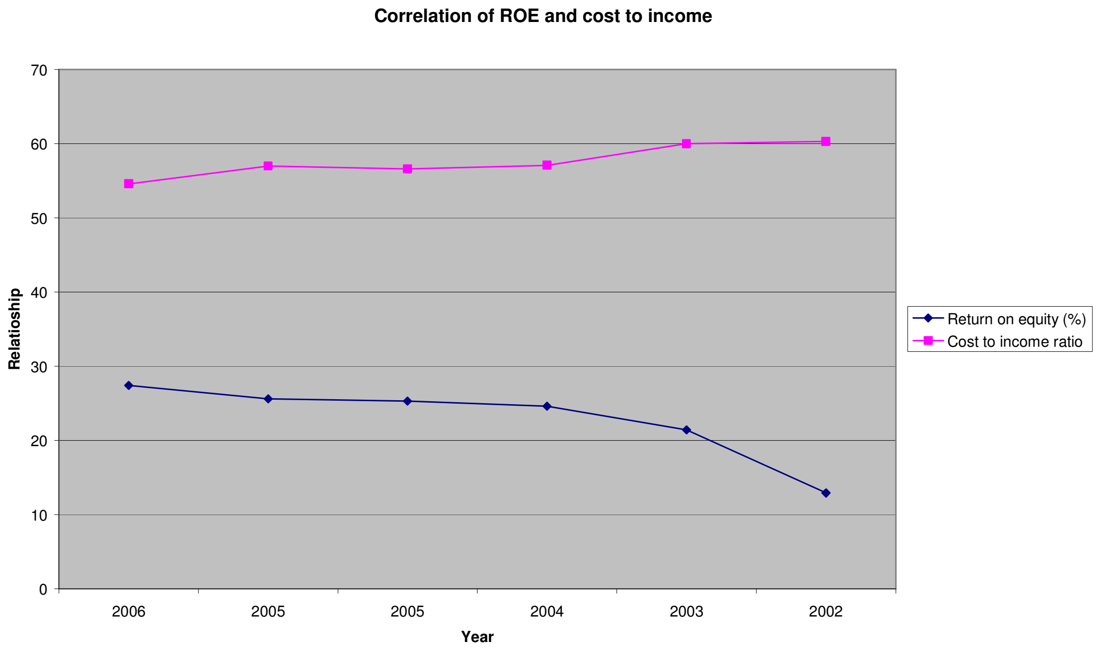

Chart 4.1.4: *Data source: 2006 Financial Statements*

Interviewees 1, 2, 3 and 8 argued that ABSA performance cannot only be accredited to management and employees. IDs and NEDs played a major role in the growth of ABSA especially during the acquisition of ABSA by Barclays as it was the IDs and NEDs who facilitated the acquisition. The group has made excellent progress with initiatives to improve earnings by implementing best practices applied by Barclays. IDs and NEDs' role assisted in the constant growth of ABSA and added value to shareholders as reflected by growth in dividend paid, dividend cover and capital growth (Appendix 1). This growth answers the research question that IDs and NEDs are important in the value addition model defined in the conceptual framework document 2. Interviewee 8 argued that the performance of ABSA can also be attributed to internal controls and participation of Auditors in risk management.

It was clear that Auditors are required for risk mitigation purposes, but the growth in the level of their fees has a negative correlation to the cost to income ratio, the growth in dividend paid and profitability of the bank. Most of their duties can be efficiently done by the internal audit if it's properly resourced argued interviewee 33. During the acquisition (2005), audit costs increased by 300%, which is a negative trigger on the conceptual framework document 2 and Appendix 7. The effectiveness of the board is affected by this increase as it increases the cost to income ratio and reduces retained income and profitability.

4.2 FirstRand Bank (CBZ) Performance Analysis

Through its ownership of First National Bank, Momentum, Rand Merchant Bank, WesBank and Discovery and CBZ (Appendix 2) the Group can operate in almost every area of the financial services arena. The Group is structured as a confederation of profit centres that serve the various parts of the financial services market. This structure is successful because it allows FirstRand to function as a number of small focused businesses that can find and swiftly exploit profitable niches, whilst at the same time enjoy the financial muscle and operational critical mass of the Group argued interviewees 11 and 12.

"Each profit centre has its own strategy and its own highly motivated management team often supported by its own individual brand, specifically designed and positioned to service that particular customer base. The significant balance sheet of the Group provides financial credibility to these individual businesses and the capital required to operate and grow. In addition, FirstRand's integrated structure allows each business to leverage off all the different building blocks available across the Group, such as IT systems, client bases and skills," stated interviewee15. This is referred to in the Group as "collaboration" and in the past two years significant top line growth has been created through the various businesses working together www.firstrand.co.za.

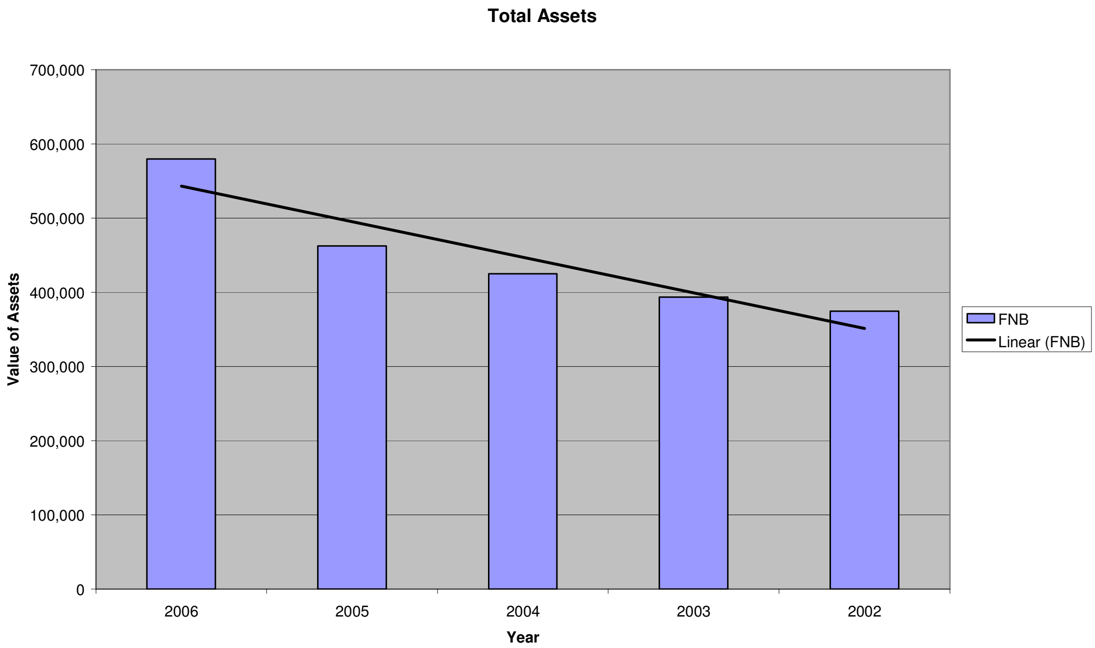

Chart 4.2.1: *Data source: 2006 Financial Statements*

The group achieved consistent performance through focusing on a number of core strategies which underpin a unique bank. A combination of these strategies and strong external environment meant that despite the high base created from previous years, the bank exceeded its earnings growth targets each year by 10% argued interviewee 11. Harris (interviewee 12) (2007: 12 of the financial statements) attributed this growth to: "the extent, to which our business philosophy has empowered our divisions and their management to provide the results, is the key success factor for our bank and this differentiates our bank from other banks," as reflected by the asset growth (Chart 4.2.1).

The growth in revenues and profitability (Chart 4.2.2) of the bank resulted in the constant growth of the assets and the strength of the balance sheet. Interviewee 13 (Burger 2007: 16) argued that, the board's responsibility is to strategically position the balance sheet and the income statement by managing the assets and liabilities of the bank Chart 4.2.1. His argument leaves out the management of cash flow, which is the most important element of financial performance of an organization according to (Dulewicz and Herbert 2004: 265)

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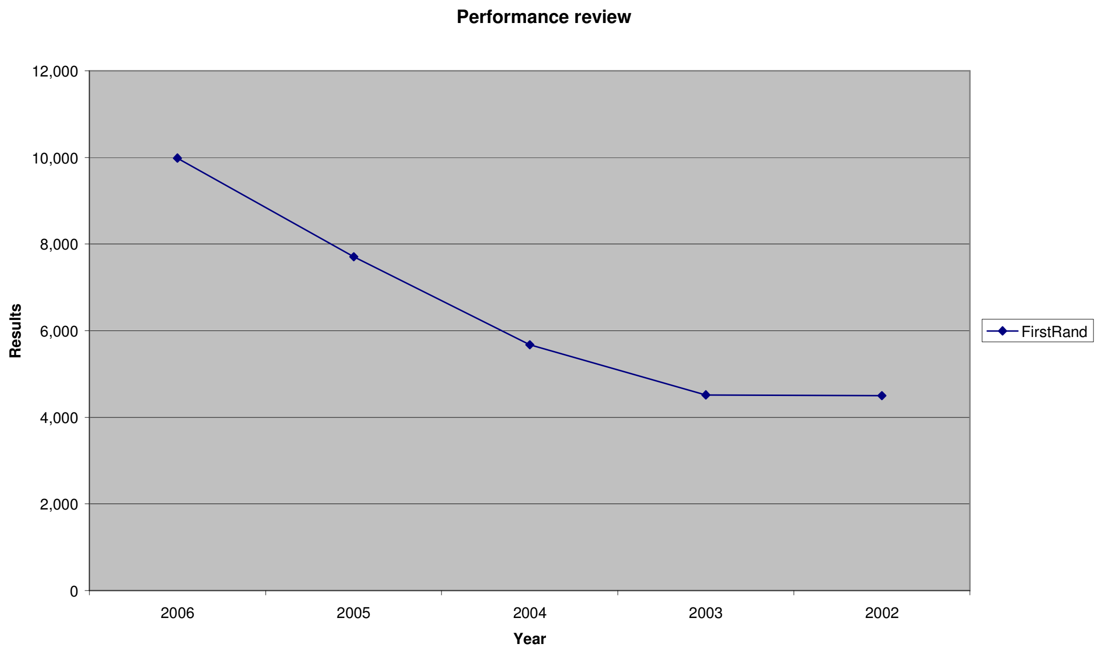

Chart 4.2.2: *Data source: 2006 Financial Statements*

Interviewee 14 argued that, “normalized earnings grow 20% year on year over the period under review, which is 3% above industry standard. The bank maximizes the spread between ROE and cost of equity (COE) as a strategy to improve cost to income ratio and profitability. This strategy has assisted the bank in its effort to monitor the effectiveness of the board.” The reduction of non-performing assets, management of interest exposure, exchange risk and capital management programme assisted the bank in reducing the cost to income ratio from 57 in 2003 to 53.8 in 2006 argued interviewees 11 and 12 and Chart 4.2.3, which is a great achievement. As a result of this effective management of resources, page 19 of the financial statements shows a constant growth in shareholder value of 20% over the period under review.

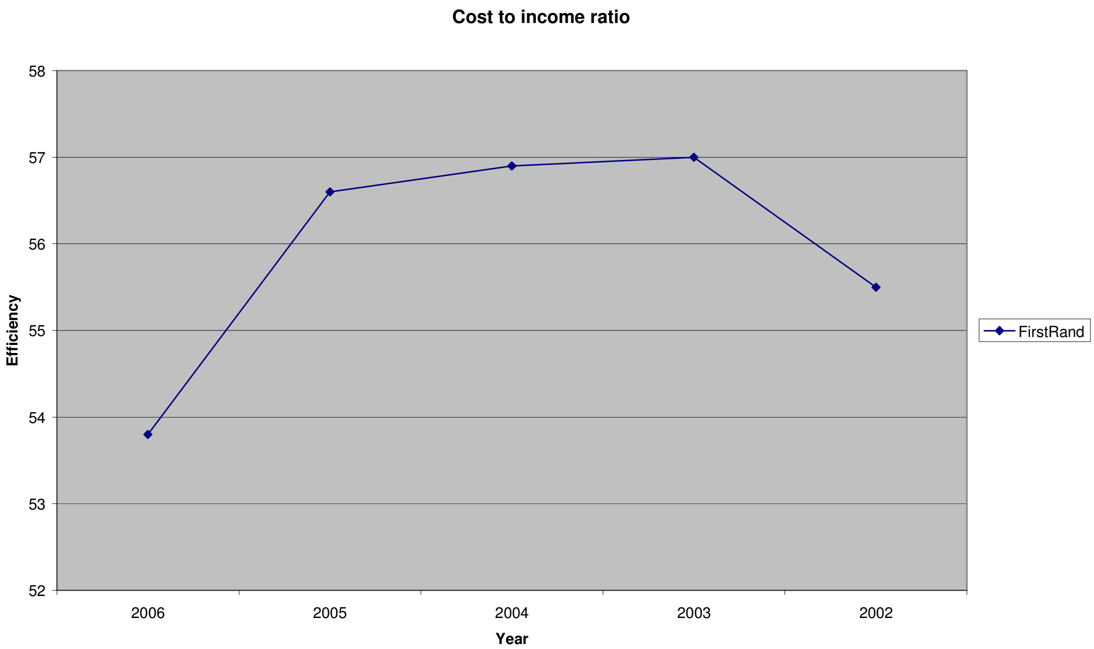

Chart 4.2.3: *Data source: 2006 Financial Statements*

Chart 4.2.3 shows the impact of cost to income ratio or profitability of the bank to ROE. In 2003 the cost to income ratio increased to 57 from 55.5 in 2004, hence reducing the ROE from 25.2% in 2002 to 22.6% in 2003. This movement shows the correlation between the two measurement tools. Lower cost-to-income ratio, higher ROE and growth in assets Appendix 2 is a result of well skilled board which operates efficiently is show by low cost to income ratio and constant growth in assets under management. Performance of FirstRand is and indication of how a well-structured bank operates which shows that a combination of IDS, NEDs and owners create a hybrid of skills which add shareholder value.

4.2.1 FNB Summary

	2006	**2005**	**2004**	**2003**	**2002**
Sales Growth (000)	30,395	27,505	23,417	22,412	21,528
Total Assets	579,787	462,739	424,821	393,674	374,766
Profit for the year	8825	7137	5676	4516	4495
Cost to income	53.8	56.6	56.9	57	55.5
ROE	25.1%	25.2%	25.4%	22.6%	25.2%

Table 4.2: *Data source: 2006 Financial Statements*

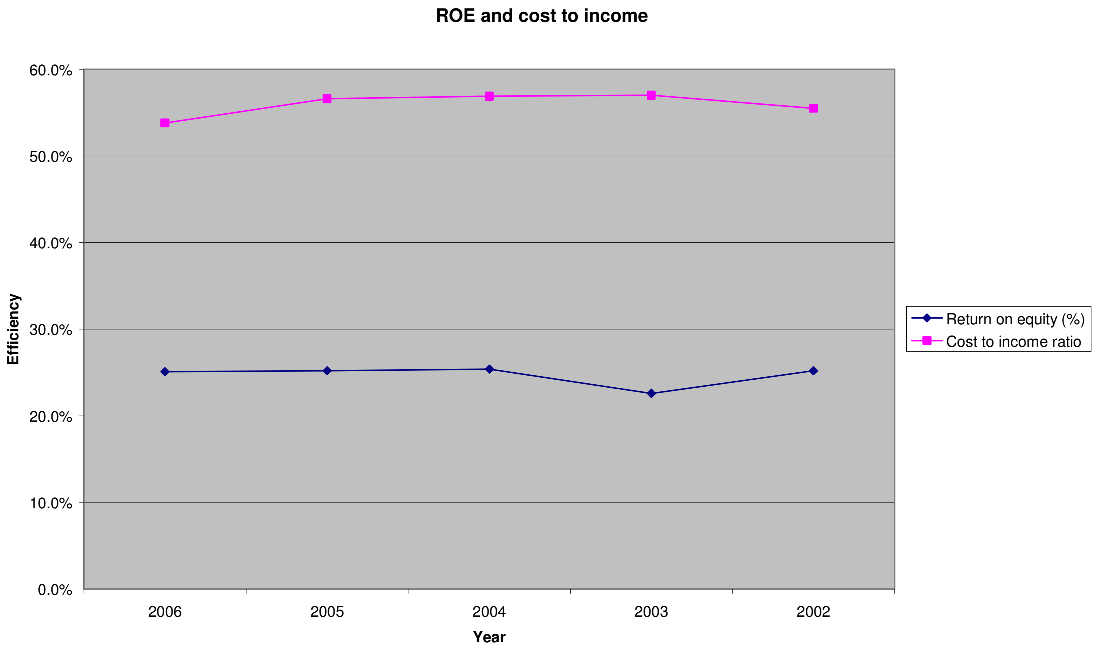

Chart 4.2.4: *Data source: 2006 Financial Statements*

FirstRand as an owner managed bank has shown a terrific growth since it incorporation in 1998. FirstRand being the youngest bank has managed to claim a second biggest bank position by assets and profitability, which is attributed to the participation of owners in the management of the company. The bank has the most efficient asset utilization ratio of 1, 5% compared to Standard bank's 1.08% and income to asset ratio.

The importance of the auditors here again is questionable as their fees continue to grow at a rate of 80% year on year. This growth cannot be matched to the growth of business of 41% year on year, which proves that auditors are a negative trigger on the conceptual framework. Auditors are necessary for risk mitigation purposes but their role has been over legitimized, yet their value addition is very minimal.

4.3 Nedbank (MBCH) performance analysis

Nedbank is one of the oldest banks with one of the strongest institutional investor in Old Mutual (Appendix 3). As a result of mismanagement and poor corporate governance practice, the bank went through very difficult times from 2000 to 2003 Appendix 3 and Chart 4.3.1. This resulted in the replacement of the whole board and senior management in 2002 as assets declined as a result of BOE acquisition Chart 4.3.1.

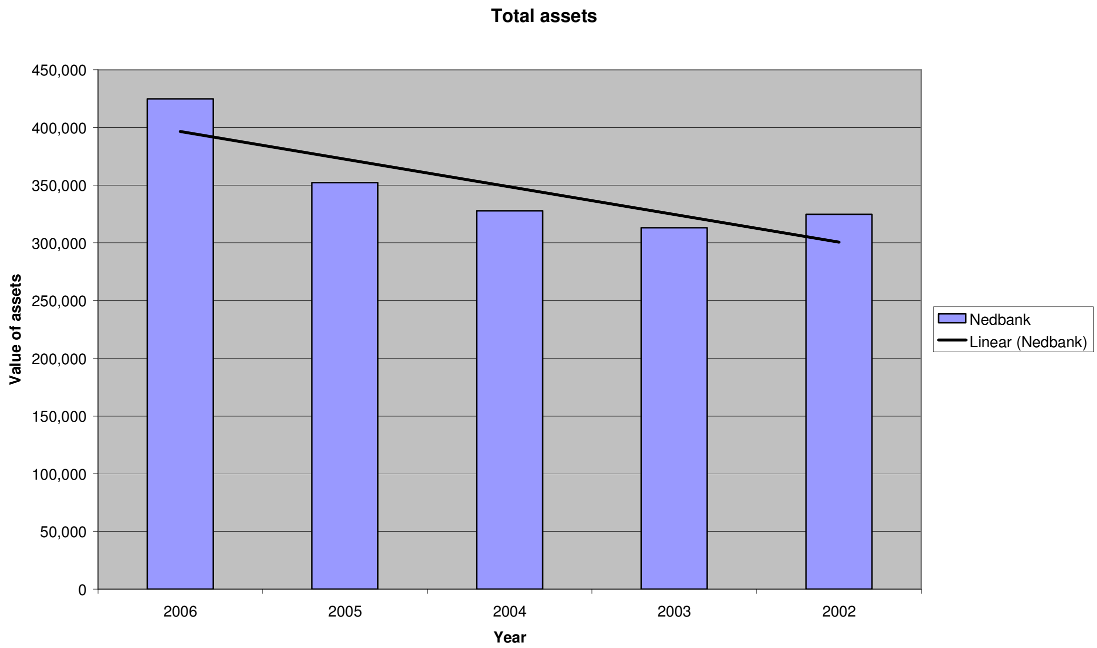

Chart 4.3.1: *Data source: 2006 Financial Statements*

The acquisition of BOE, mismatch of foreign currency hedging and risk management resulted in the near collapse of the bank as the capital adequacy ratio drop from 12% to 10% in one year. The acquisition of BOE was financed by debt while the board did not project a waste case scenario of interest rates going up and at the same time paid a premium on the acquisition, which was not supposed to be the case. Chart 4.3.1 shows a slow growth in total assets from 2003 to 2005 as a result of a lot of non-performing assets and turnaround strategy being implemented. The results of the turnaround programme started to yield results as reflected by the growth of the balance sheet and growing profits from 2004 Appendix 3 and Chart 4.3.2.

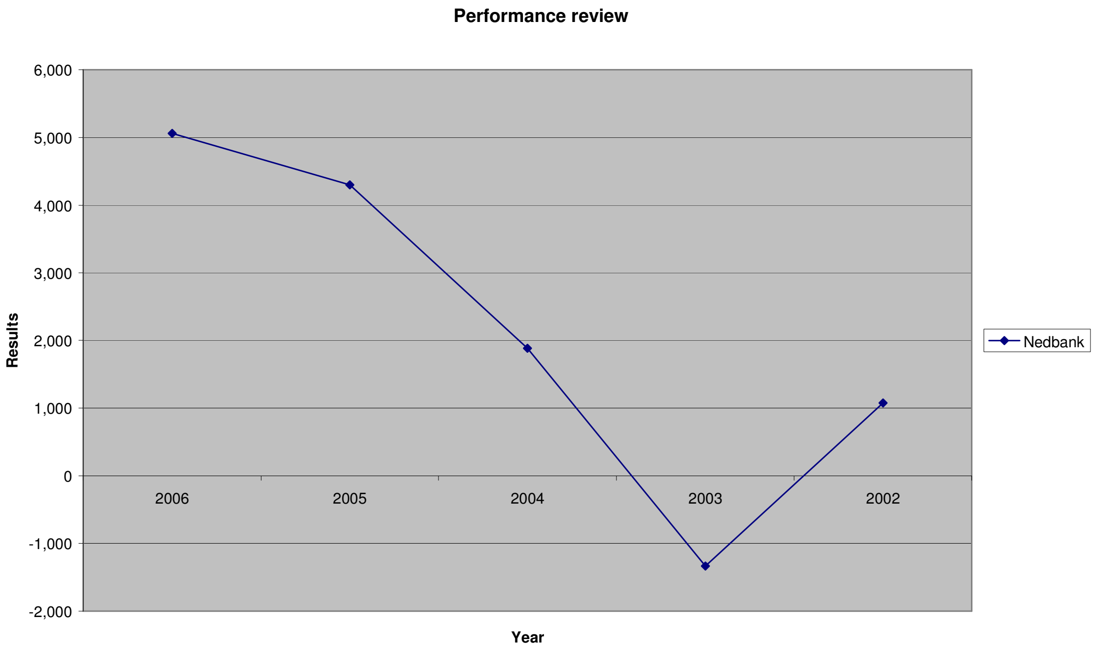

Chart 4.3.2: *Data source: 2006 Financial Statements*

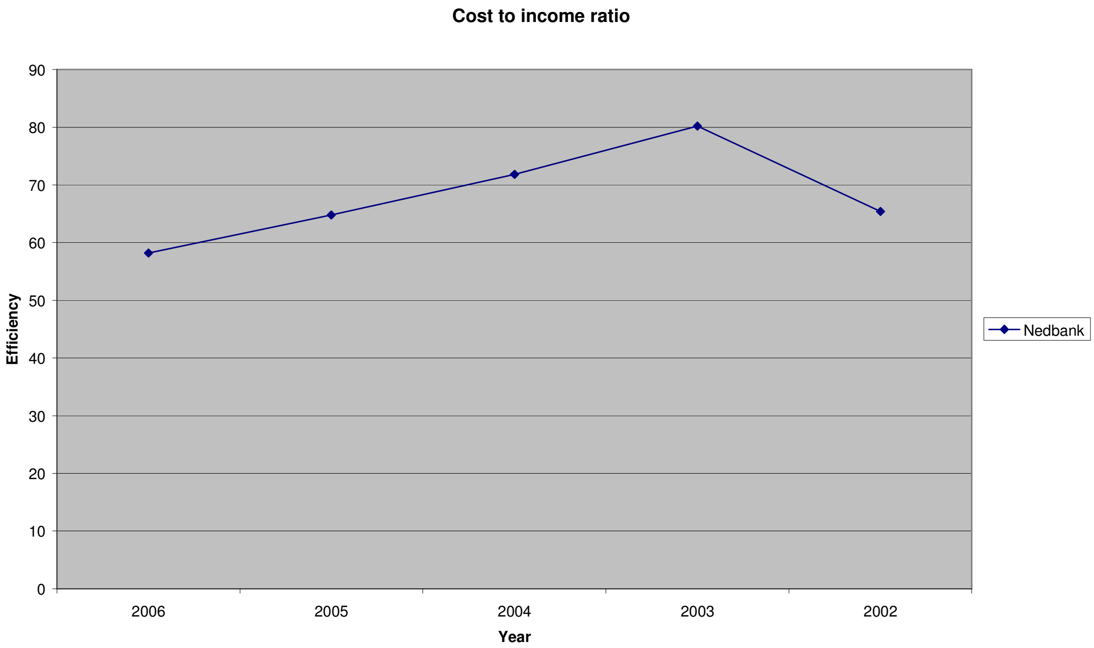

Chart 4.3.3: *Data source: 2006 Financial Statements*

4.3.1 Nedbank summary

	2006	2005	2004	2003	2002
Sales Growth (000)	28,521	23,234	22,789	28,141	23,607
Total Assets (000)	424,912	352,258	327,840	313,113	324,767
Profit for the year (000)	5,061	4,297	1,882	-1,334	1,078
Cost to income ratio (%)	58.2	64.8	71.8	80.2	65.4
ROE (%)	18.6%	15.5%	11.0%	0.4%	14.9%

Table 4.3: *Data source: 2006 Financial Statements*

Nedbank is a good example of how boards can poorly perform and lead to shareholders losing their wealth Appendix 3. It is also a good example of the irrelevance of auditors. Shareholders lose their wealth even though the auditors' role is to mitigate risk. In the event of poor decisions by the board auditors do not take responsibility to protect shareholders, hence (Turnbull 2006) argued that they do not add shareholder value.

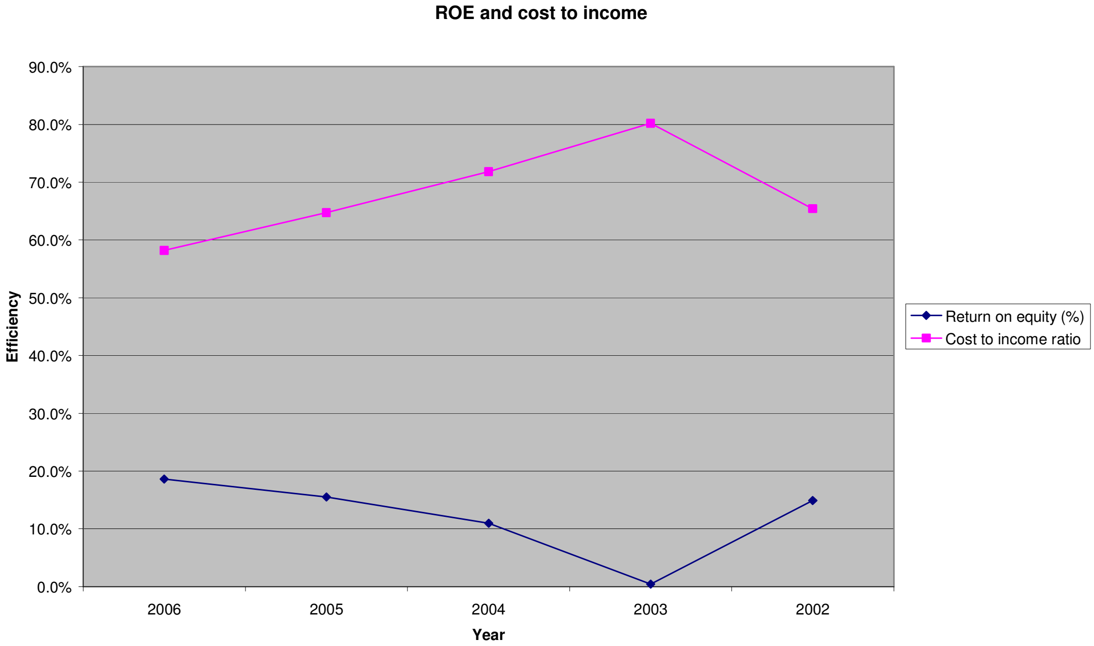

Chart 4.3.4: *Data source: 2006 Financial Statements*

When the bank was experiencing problems (2003) Chart 4.3.4 audit fees grew by 84% resulting in higher cost to income ratio and low ROE (Appendix 3) was draining the little remaining shareholder value. When directors make wrong decisions auditors do not correct the mistakes on time in order to protect shareholders. This is the same situation in all banks that collapsed (document 2 Appendix 1). Auditors although they have a professional and legal responsibility to report on the going concern of any business, their reports do not add shareholder value as argued by the board of Enron and WorldCom, when they charged huge sum of money for audit fees yet in the following few months Enron collapsed.

Chart 4.3.4 is a tool that conventional boards should use to monitor performance so that they can formulate strategies that will reduce operating costs and improve shareholder value. The correlation between ROE and cost to income ratio is so positive that responsible board members need to monitor this relationship.

4.4 Standard Bank (Stanbic) performance analysis

Standard Bank is the largest bank by assets, revenue, profitability and market capitalization (Appendix 4). Over the years their strategy has been low volume and high profit margins, which has been a critical success factor for the bank argued interviewees 26 and 27. Interviewee 32 stated that, corporate and investment banking loans and advances continue to be the cash cow for the bank growing by 32% year on year as a result of renewed demand for corporate term lending in South Africa and collateralized lending outside Africa. The strategy here is low volume high margins, which resulted in a continuous balance sheet growth Chart 4.4.1 and 4.4.2.

Interviewees 26, 27 and 29 argued that robust asset growth and buoyant transactional activity from both consumer and corporates contributed to the bank achieving income rising of 25% year on year. Standard bank generates most of its income from advisory services on acquisitions, private equity transactions and other corporate advisory service resulting in the cost to income ratio being low and growing profitability Cart 4.4.2 and 4.4.3.

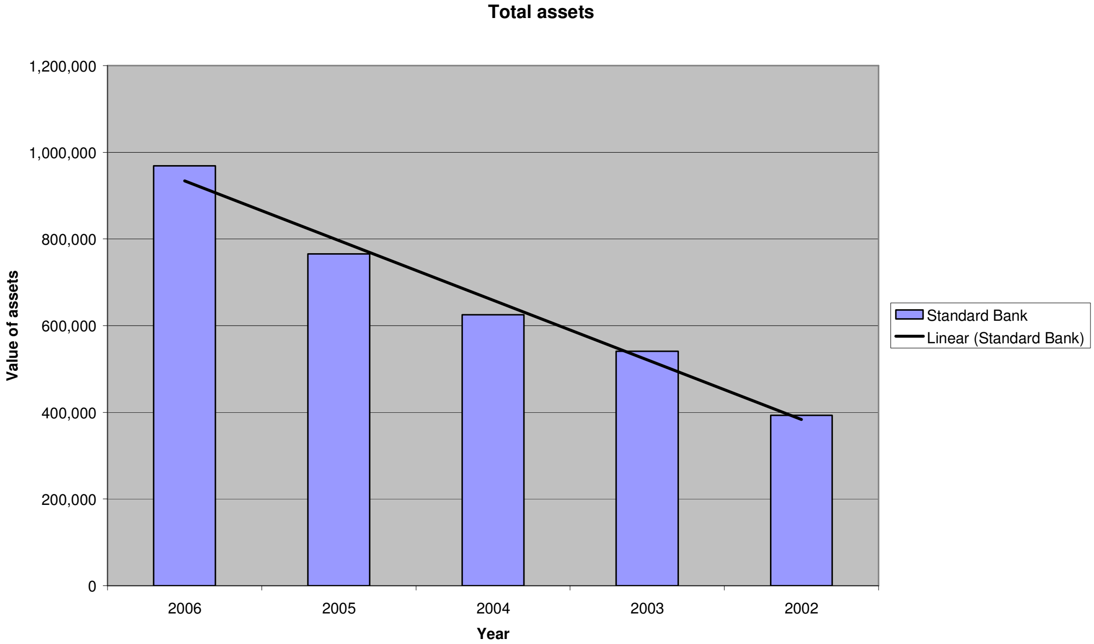

Chart 4.4.1: *Data source: 2006 Financial Statements*

The three charts here are positively correlated as a result of the declining cost to income ratio. These measurements however do not tell us how much cash has been generated during the year by the bank. This is the major weaknesses of these conventional measurements tools. The researcher in document 3 argued that profit is an opinion and cash is a fact. During the year the bank generated R6, 154 million cash R31, 717 million less that the previous year. These ratios do not explain why and what happened to the cash from previous year.

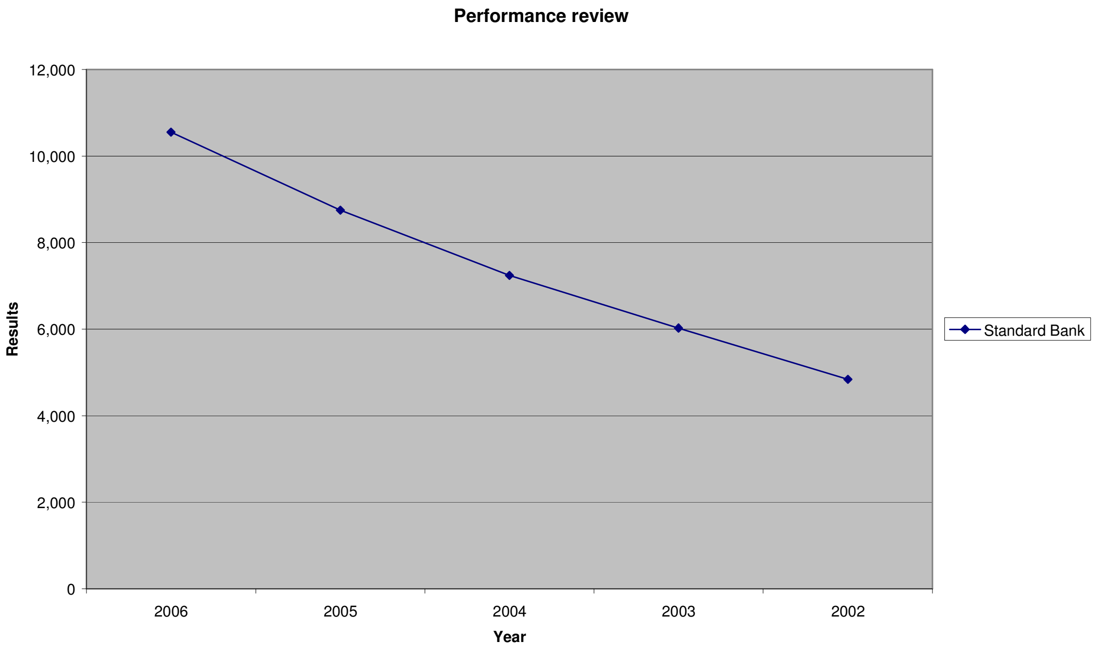

Chart 4.4.2: *Data source: 2006 Financial Statements*

Profit for 2006 (10,551 million) and 2005 (8,753 million) against cash generated of 6,154 million and 37,871 million respectively is not explained by the four measurement tools used by (Muth and Donaldson 1998: 5 - 28). Chart 4.4.3 is a strong measurement tool for effectiveness and performance, which need to be used together with CFROTA (Document 5) and other cash flow ratios in the performance assessment of the bank.

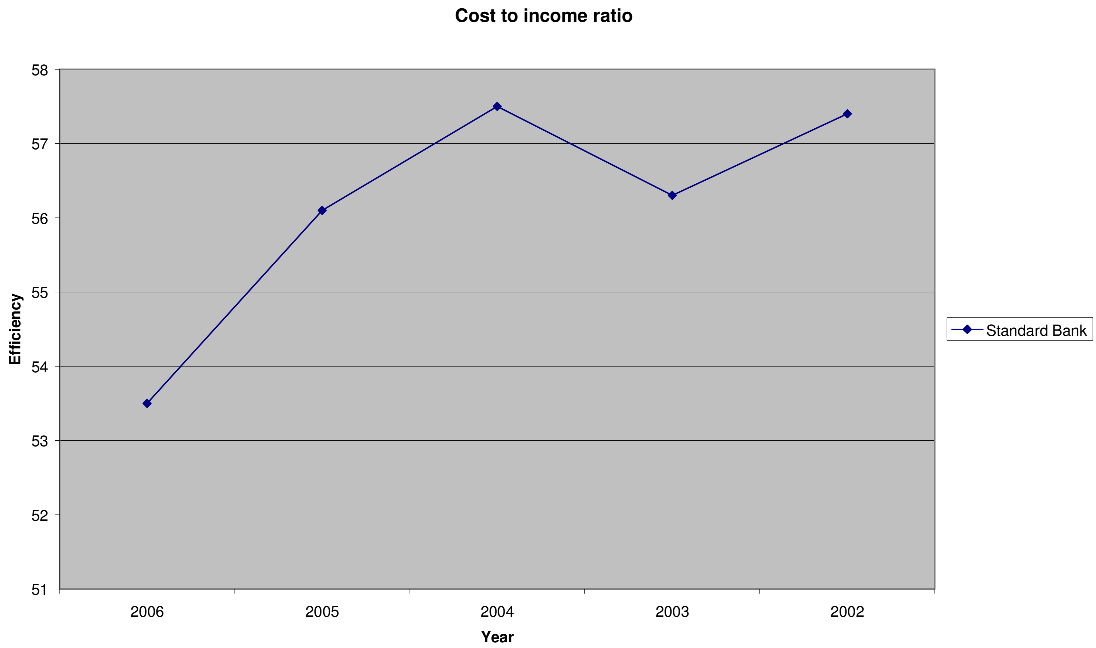

Chart 4.4.3: *Data source: 2006 Financial Statements*

4.4.1 Standard bank summary

	2006	2005	2004	2003	2002
Sales Growth (000)	129,911	107,657	99,831	95,840	89,192
Total Assets (000)	968,991	765,690	625,537	540,566	393,353
Profit for the year (000)	10,551	8,753	7,244	6,026	4,841
Cost to income ratio (%)	53.5	56.1	57.5	56.3	57.4
ROE (%)	25.2	25.2	24.2	22.9	20.3

Table 4.4: *Data source: 2006 Financial Statements*

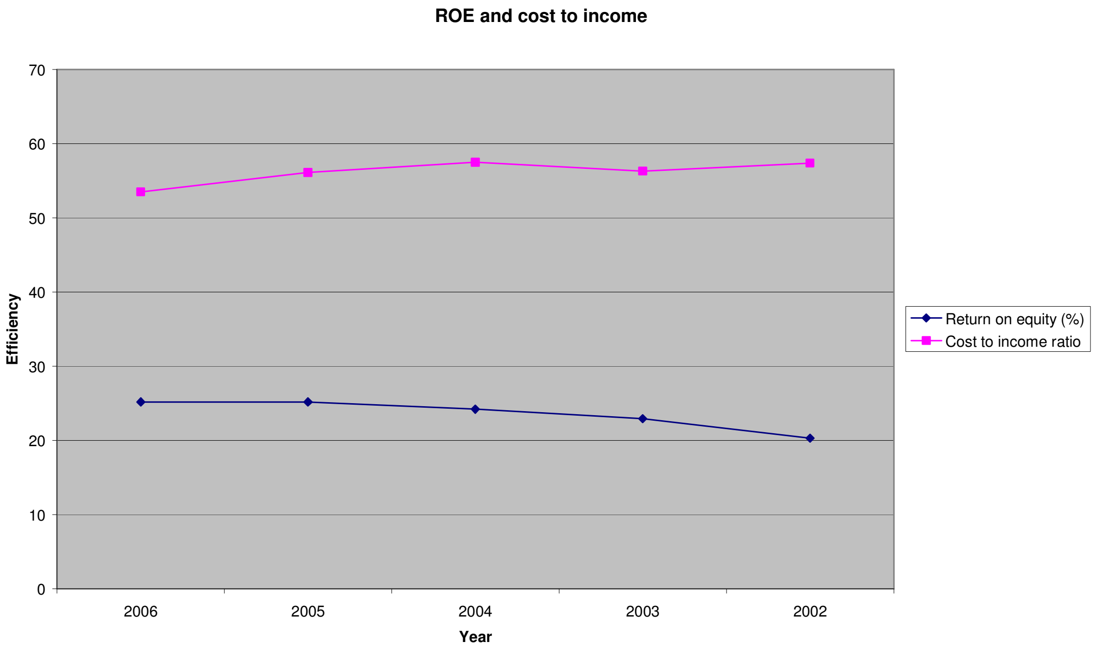

Chart 4.4.4: *Data source: 2006 Financial Statements*

Standard bank is the most profitable bank followed by FNB Chart 4.2.1 and 4.4.2. Over the five year period, Shareholder value growth increased by 146% which reflects a constant shareholder value growth. The continuous decline of the cost to income ratio over the five years resulted in super performance Appendix 4. Chart 4.4.4 demonstrates the relationship between cost to income ratio and the growth in ROE, which shows the benefits that shareholders are enjoying. This has a positive impact on the share price, which indicates the growth in shareholder value.

4.5 Analysis of Investec

Investec comprising Investec Plc and Investec Limited is an international, specialist banking group that provides a diverse range of financial products and services to a select client base. Founded as a leasing company in Johannesburg in 1974 and acquired a banking license in 1980 and was listed in 1986. The inclusion of Investec here is as a result of the bank being one of the success stories of owner managed banks. The author would like to compare the performance of FNB and Investec in supporting the need for participation of owners in improving corporate governance practices in banks.

In 2002 Investec implemented a dual listed company's structure with linked companies listed in London and Johannesburg. 2003 saw the introduction of a 25.1% BEE partners to Investec Limited. The bank is owner managed just like FirstRand and is older then FNB. Although the bank has managed to post some good results, has not been able to grow its asset base and profitability as FNB. This has been primarily as a result of high cost to income ratio and the focus for the high net worth clients instead of focusing on the corporate market where there are few transactions with high margins.

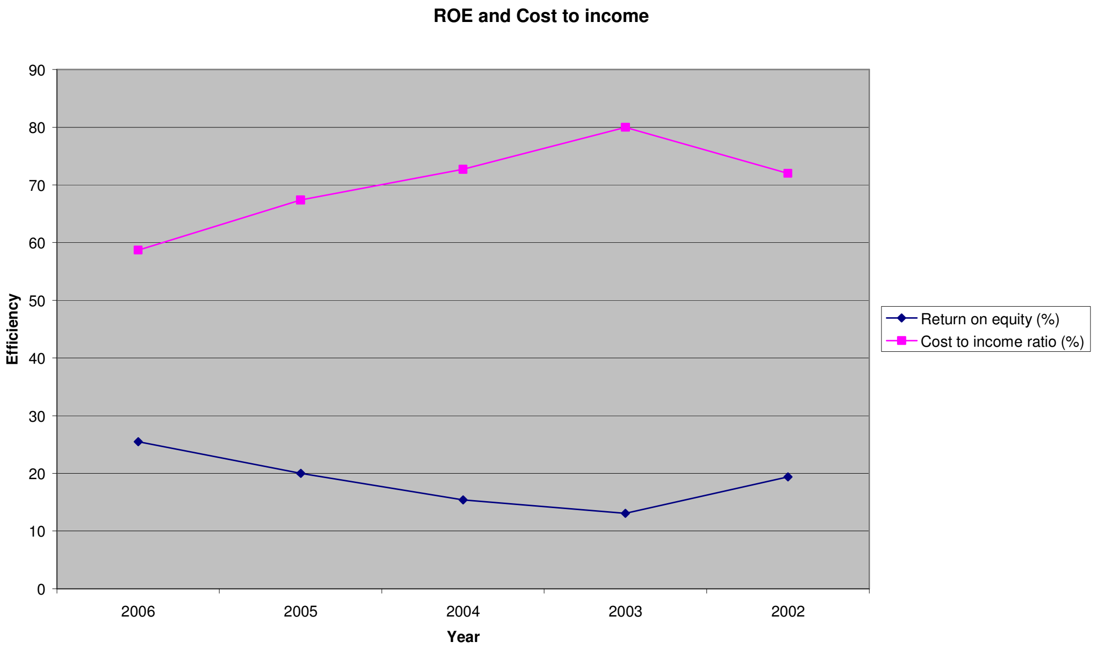

Chart 4.5.1: *Data source: 2006 Financial Statements*

Chart 4.5.1 is a reflection of the relationship of the income to ROE and growth in shareholder value. Although the bank is owner managed, its operating efficiency is very low due to high operating costs, staff compensation to operating income ratio and administration costs. The bank has R26 billion worth of total assets, but generated R349 million profits in 2006 and R329 million in 2005 a mere 6% growth.

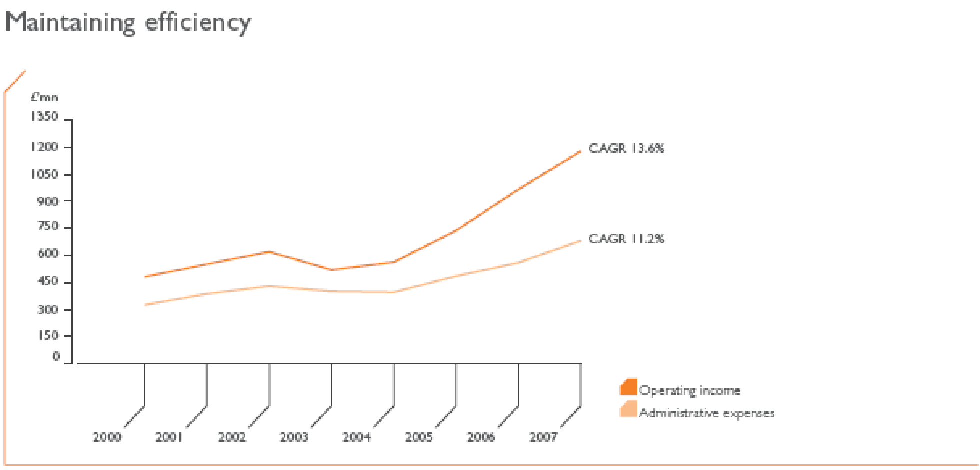

Chart 4.5.2: *Data source: 2006 Financial Statements*

Investec has managed to maintain a constant shareholder value growth in for the past three years. Chart 4.5.2 gives a reflection of the operating margins over the past six years, which is a growth of 2.4% as compared with other four major banks with over 15% growth. The strategies for the bank need to change and focus on high margin strategies. Current strategies have resulted in the bank performing below what it should be, considering that FNB was incorporated in 1998 and has been performing much better than Investec.

5 Cross bank analysis

5.1 Context

The context of analyzing the performance of banks is to assess which bank has been creating a constant growth in shareholder value in answering the research questions and the hypothesis. With the resources available for example, total assets, skills and experience of directors, the researcher wanted to assess which board is more effective in creating shareholder value. Consolidated financial statements were used for both banks in SA and Zimbabwe, which made comparison much easier.

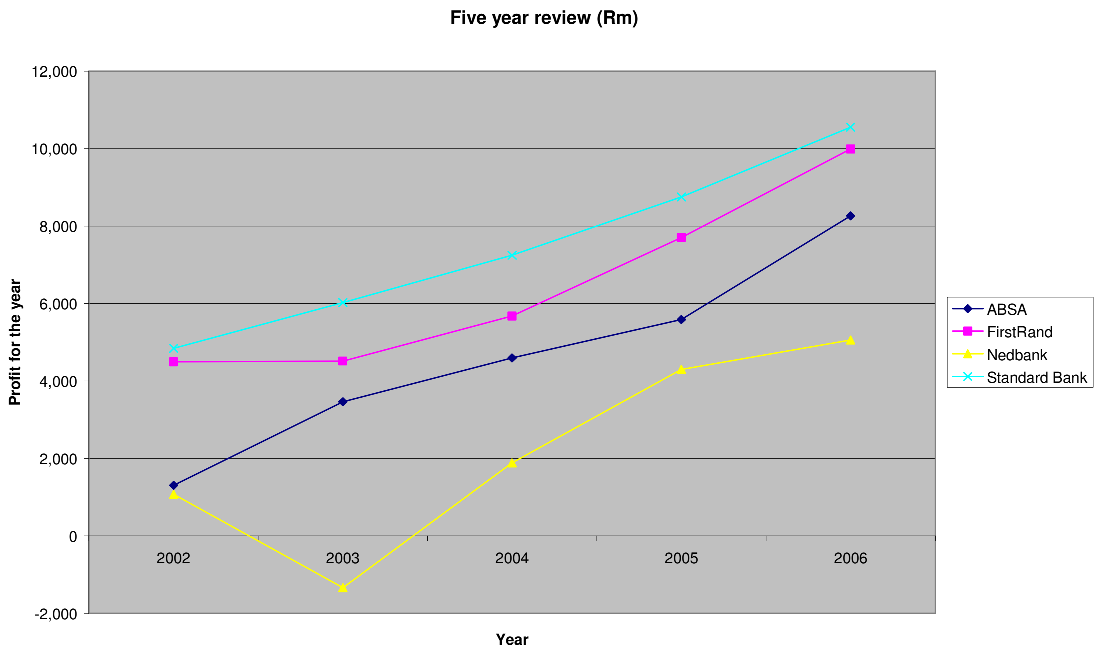

Chart 5.1.1: *Data source: 2006 Financial Statements*

Chart 5.1.1 gives an indication of which bank has been performing better than the other using the five conventional accounting measurement tools. Although Standard bank has been performing above the rest considering the available resources, with total assets of over R900 billion, FNB is the most efficient and effective bank considering that it has 42% less assets than Standard bank (Chart 5.1.2), which indicates that Standard Bank has some lazy assets. FNB has a higher asset to income ratio as compared to the other banks. This ratio shows that Standard Bank has lazy assets as compared to FNB.

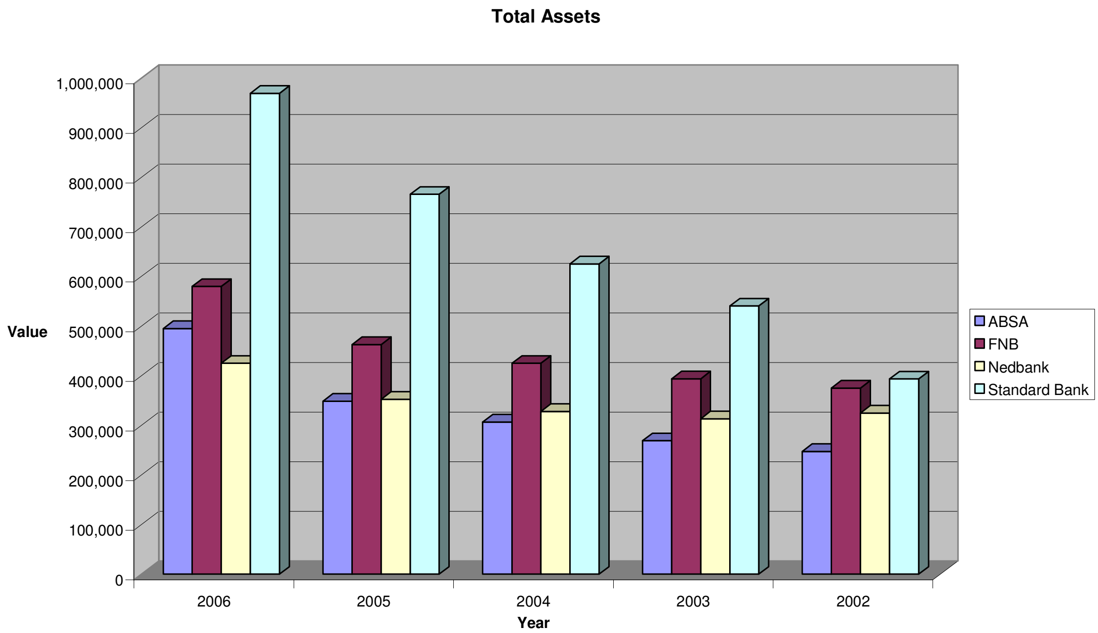

Chart 5.1.2: *Data source: 2006 Financial Statements*

5.2 Methods for analyzing data

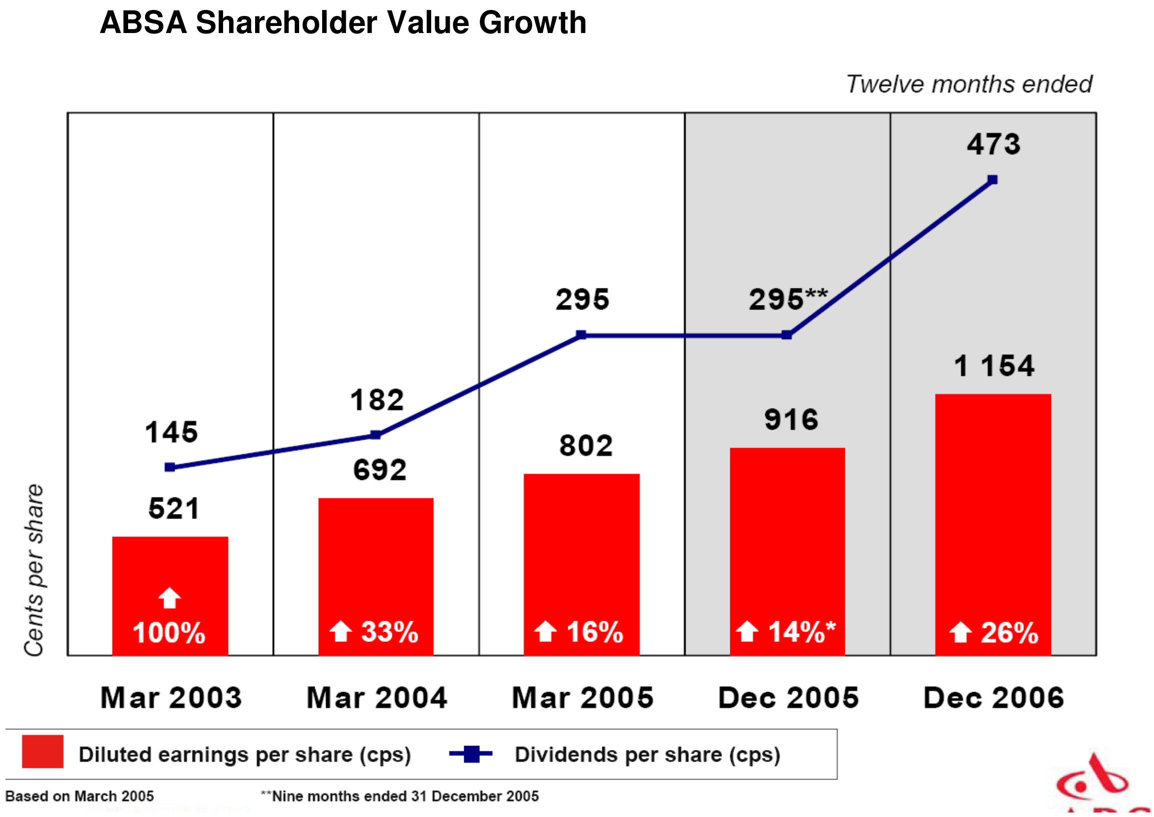

Chart 5.2.1: *Data source: 2006 Financial Statements*

There are many methods of analyzing data, but the researcher selected correlation analysis using manual and electronic systems. The manual system was used to collect raw data from the annual financial statements of all banks, which then resulted in the use of electronic system (excel and SPSS) used to analyze the information. Correlation coefficient is the measure of how closely related two data series are. It measures the direction and extent of linear association between two variables argued (DeFusco et al 2004: 377). In analyzing data a relationship was realized that exist between total assets, ROE, annual profits and cash flows. The more efficiently the assets are used the more profitable the bank becomes argued interviewee 3, 15, 33 and 36.

Chart 5.2.1 illustrates the growth of value in ABSA since 2003 against the growth in diluted earnings. Dividend per share grew year on year by 22%, which is an indication of a growth in shareholder value. The acquisition of ABSA by Barclays in 2005 resulted in a slow down in dividend growth, but accelerated in 2006 to 473 cents per share, showing the benefits of the acquisition and the value it brought to shareholders argued interviewee 1, 2 and 3. The acquisition was as a result of the participation of IDs and NEDs in the strategic formulation of the bank.

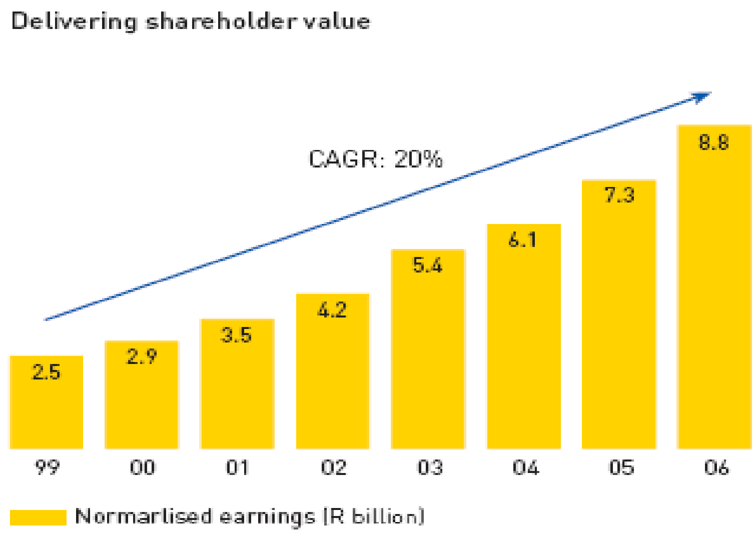

Chart 5.2.2: *Data source: 2006 Financial Statements*

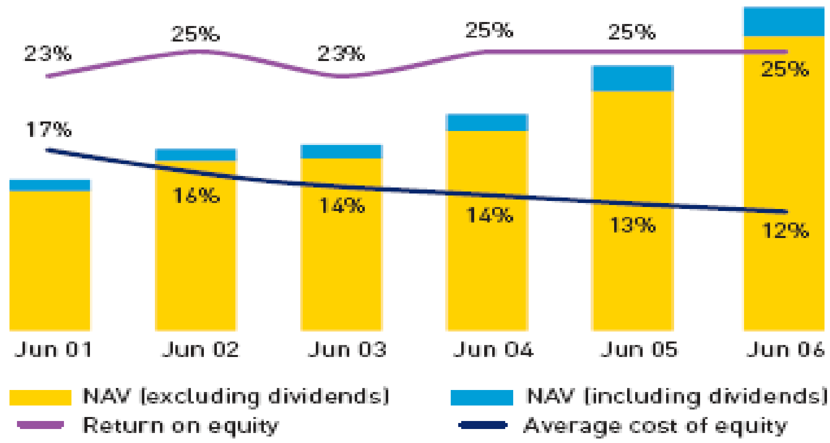

Chart 5.2.3: *Data source: 2006 Financial Statements*

Charts 5.2.2/3 indicates the constant growth in shareholder value delivered by FNB (CAGR of 20%). This growth indicates that FirstRand is the most profitable and efficient bank among the four major banks and owner managed using the conventional accounting tools. Over the years the bank managed to deliver value to shareholders by a constant ROE of above industry average of 20%. FirstRand's average over the period under review was 4% above industry standard argued interviewee 15. FNB assets are more productive as they managed to deliver a higher value than any other bank under review over the five year period. The impact of a lower cost to income ratio is seen here as full employment of assets results in a higher return on assets and profit to asset ratio.

From 2002 Nedbank has been performing below market index (Chart 5.2.4), there is a big gap between JSE average and the bank's performance. The effects of the near collapse of the bank are still hounding the bank argued interviewees 19, 21 and 22. Although there has been significant growth in performance due to the turnaround programme by the new management, the bank has not delivered the expected return by shareholders.

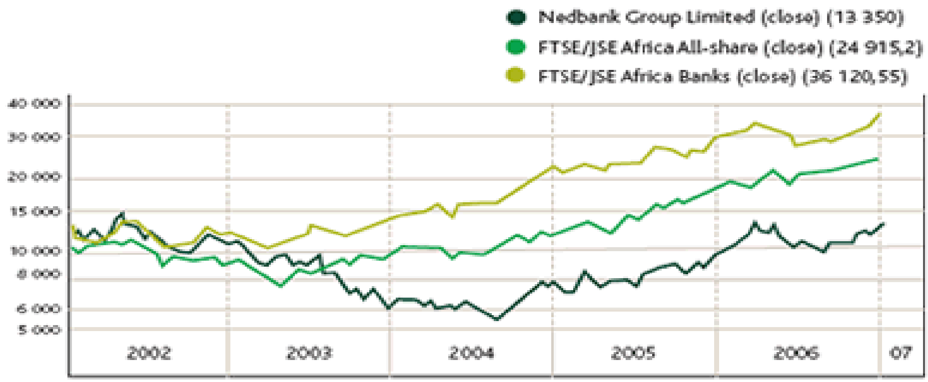

Chart 5.2.4: *Data source: 2006 Financial Statements*

Nedbank has support from its biggest institutional investor Old Mutual, which the bank should leverage on as Old Mutual has the biggest market share in the insurance industry. Its market share should add value to Nedbank if the market is turned into customers of Nedbank stated interviewee 34. Chart 5.2.4 shows the historical performance of Nedbank, which shows that the board is not delivering the value that is expected by shareholders as its performance is below market index.

Chart 5.2.5 indicates Standard bank's growth in shareholder value, the CAGR of 19%, which is 1% below FirstRand. Standard bank is the biggest bank by assets and market capitalization but has delivered an average ROE of 23.56%, which is 0, 04% below FirstRand yet FirstRand has 42% less assets than Standard bank.

Contribution per asset is very low although the bank has managed a constant ROE above industry average of 20%.

Standard Bank Shareholder value growth

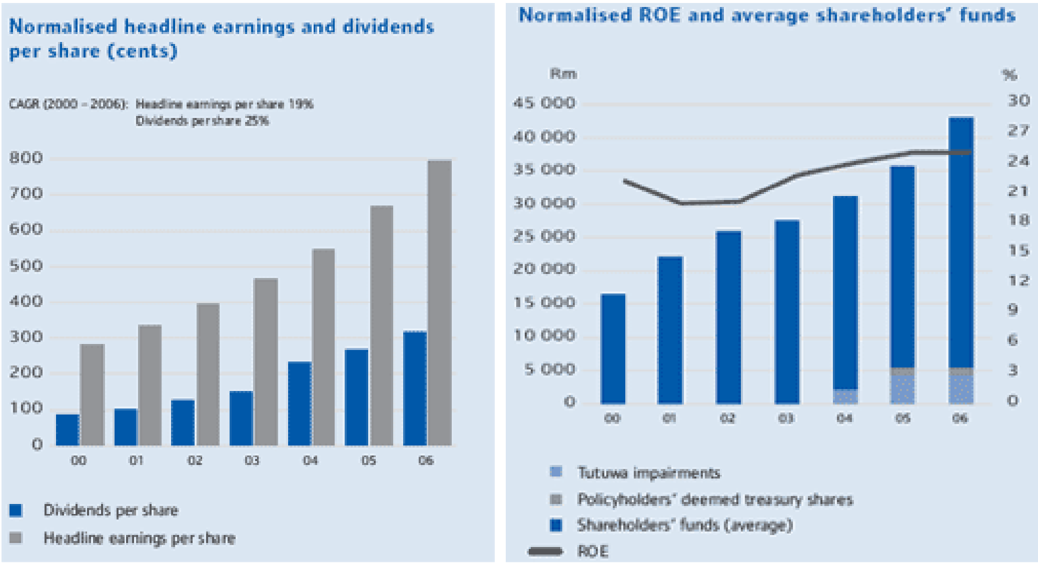

Chart 5.2.5: *Data source: 2006 Financial Statements*

5.3 Corporate governance ranking

Using (Muth and Donaldson 1998: 5 - 28), methodology of measuring performance, the author ranked each bank's performance as measured by each component page 4 of this document. Red (1) representing the best performing bank in each category. Blue (2) being second, green (3) and yellow (4) being the least performing bank in that category. FNB has the highest number of reds followed by Standard Bank and ABSA, while Nedbank is the least ranked with no single red or blue. Nedbank came last on all categories. This scoring was the basis for ranking the banks in table 5, 3.2, where FNB became the most effective bank using Muth and Donaldson's performance measurement models.

	ABSA	FNB	Nedbank	Standard Bank
Return on Assets (ROA)	9.23%	28.14%	7.30%	16.77%
Average Return on Equity (ROE)	22.30	24.76	12.08	23.56
Shareholder wealth	100%	55%	31%	146%
Sales Growth	56.50%	41.19%	20.82%	45.65%
Average Cost to Income Ratio	58.16	55.96	68.08	56.16

Ranking

Red	**1**
Blue	**2**
Green	**3**
Yellow	**4**

Table 5.3.1: Bank performance scoring

The table below ranks all the banks that have been analyzed and a scoring was done using Table 5.3.1 and the responses from interviewees as in document 3. The researcher looked at the skills and experience of directors, profitability of the banks, asset utilization ratio, participation of shareholders and cost to income ratio as other basis of measurement. The evidence from table 5.3.1 and interviewees was used as evidence to prove the ranking on Table 5.3.2 below. As shown above Nedbank fell into the last quadrant and FirstRand first. This shows that the banks under review have different corporate governance structures, which result in one bank performing differently than the other.

Using these factors, FirstRand and Standard bank are the most profitable banks and are highly ranked. Due to shareholder participation in FirstRand, Standard bank scored less on shareholder participation and asset utilization ratio. The study of Investec as another owner managed bank, the factors considered seem not to be favoring the bank as the cost to income ratio is very high. Using the rating system above, FirstRand was found to have the most effective board although all the banks observe codes of CG best practice and the King 2 Report.

Corporate Governance Matrix

<table>
<tr><td></td><td></td><td colspan="2">Financial performance</td></tr>
<tr><td></td><td>Judgment</td><td>High</td><td>Low</td></tr>
<tr><td>High</td><td>• Active Shareholder participation – entrepreneurial focus
• High levels of board experience, skills and development programmes
• Technical and professional
• Level of independence
• Level of transparency
• Stakeholder mapping
• Entrepreneurial</td><td>Professional board:
FirstRand</td><td>Representative board:
Standard Bank
ABSA</td></tr>
<tr><td>Low</td><td>• Little Shareholder participation
• Low levels of board experience, skills and development programmes
• Technical and professional
• Level of independence
• Level of transparency
• Stakeholder mapping</td><td>Country club board:</td><td>Passive board:
Nedbank</td></tr>
</table>

Table 5.3.2: Bank Ranking

The evidence from interviewees, financial statements and document 3 has been supported by the scoring on Table 5.3.1 above, which resulted in the ranking on Table 5.3.2. Each bank has been placed in the correct quadrant as a result of the quantitative evidence from the financial statements of each bank. With a ROA of 7, 3%, ROE of 12, 08%, low Shareholder participation and highest cost to income ratio, Nedbank ranked least while FNB ranked highest. The quantitative evidence matched evidence from the interviewees who argued that ABSA can improve its position if it changes its strategy of high volume low margin.

5.4 Answering the hypothesis

a. There is a poor association between a bank's performance as judged by traditional measurement tools (*Return on Assets (ROA), Return on Equity (ROE), Profit, Shareholder Wealth and Sales Growth)* and the viability and sound governance of the bank.

The research has proved the null hypothesis that the conventional accounting measurement tools (*Return on Assets (ROA), Return on Equity (ROE), Profit, Shareholder Wealth and Sales Growth)* are not sufficient measurement tools of board effectiveness as they exclude cash generation. The current Global credit crunch is a true reflection of the weaknesses in using financial performance tools as a measure and disclosure of bank performance. Failure to foretell the future of AIG, Fannie Mae, Merrill Lynch, Lehman Brothers and Freddie Mac is a direct indication of the failure of accounting measurement tools. Accounting measurement tools lack other components like growth in cash reserves, future risks, future business projections and gearing of the bank. While these tools are important measurement tools, there are other additional measurement tools which are required to assist these accounting tools. The measurement of gearing and liquidity are an important factor to be considered when analyzing the performance of the board of banks.

b. There is an association between the degree of independence of NEDs, Auditors and IDs and the effectiveness of boards.

It was also proved that IDs and NEDs are important stakeholders in the corporate governance structures. It was however realized that these board members do not spend enough time on bank issues and are affected by conflict of interest bringing the debate of independence into being. This problem can be solved by making sure that board members are governed by their professional boards of ethics and code of conduct of the IOD (refer to policy change proposals).

Answering the research questions, the research has provided evidence that IDs and NEDs fulfill their strategic role and are necessary as they play an important role in the governance of the bank. They play the watchdog, trustee and pilot of strategy formulation, while addressing the three different theories discussed on page 2 of the agency, stakeholder and stakeholder theory. In these roles the IDs and NEDs assisted in the shareholder value creation by applying their skills and experiences, which resulted in their appointments.

Accreditation, training and experience of IDs, and NEDs are critical in complying with ethical issues of banks and formulation of strategies. Risk mitigation and full employment of resources can only be done if board members are knowledgeable about the environment in which banks operate. Employment of different techniques in evaluating projects, acquisitions and partnerships requires significant level of skills in order to make decisions that add value to the bank. The use of accounting measurement tools is important in analyzing the past, which information can be used to project the future,

c. There is an association between board style (Professional, Representative, country club and Passive) (Table 2,4:30) and the performance of banks

Table 2, 4: 30 and 5, 3.2: 60 provided a ranking according to the results of each bank's performance in all areas that has been analyzed. The results indicate that there is a strong correlation between board style and its performance. The UK Minister (Myners 2008: 19 of the Financial Times) called for changes to be made so that bank Chief can be challenged. He further argued that bank Chiefs' lifestyle is part of the problem to the global financial crisis. NEDs and IDs contributed to the financial crisis by failing to challenge the management of many top banks, stated (Myners 2008: 19) as he urged institutional investors to take a bigger role in training and empowering corporate board members.

The training debate comes at a time when boards, particularly in the financial services, are coming under fire for failing to curb risky practices and high pay. In the same article with Myners, (Olisa 2008:19), argued that there has been a failure of governance and that really centres on NEDs and IDs and their role in making capitalism work. Much of the criticism has focused on corporate pay. NEDs and IDs have been roundly criticized for personally approving their lifestyle (ever-larger compensation packages) and these broader pay structures encouraged excessive risk taking.

5.5 Summary of findings

The literature review (Document 2) has reviewed that the legal system has failed to cub corporate failures, which has resulted in many legislative framework being developed. Legislation has been reactive to the Wall Street Crash (1929), The Great Depression (1990/91), the Asian Financial Crisis (1997/98) and the Dot.Com (2002) which resulted in the development of different legislations and the King 11 Report (1994) in Africa. The crisis has been a blessing and disguise as this assisted African countries with skills transfer as before 1994 African countries were using UK governance code of best practices.

Corporate governance is an integral part of all banks' operations contributed all respondents. Accordingly, banks are fully committed to the principles of the code of corporate practices and conduct set out in the (King 11 Report 2002). The purpose of King 11 Report is to promote the highest level of corporate governance in SA and Zimbabwe stated interviewees 19 and 34. In supporting the code, the directors recognize the need to conduct the enterprises with integrity and in accordance with generally accepted corporate practices. Banks are committed to creating value for all its stakeholders who are:

- **Shareholders**
  - Delivering sustainable earnings growth.
- **Customers**
  - Creating lasting and mutually beneficial relationships.
- **Employees**
  - Creating a positive, supportive, healthy and diversity-friendly working environment.
- **The community**
  - Being the preferred partners in growing Southern Africa's prosperity and developing a culture of positive corporate citizenry.
- **Governments and regulators**
  - Building a better Africa by supporting transformation and the development of financial services markets.

The scoring above shows the relationship that exists between financial performance and qualitative corporate governance structures from document 3. The more the five stakeholders stated above are satisfied with the board performance, the more the efficient the bank is. If one of them complains then it shows that the corporate governance structures are not in order.

It was evidenced from the findings of this research that IDs and NEDs are important stakeholders in the CG structures of all banks. The growth of ABSA, FNB, Nedbank and Standard Bank has been motivated by the participation of IDs and NEDs in the banks' strategy formulation including the acquisitions that positioned ABSA and Standard Bank as prominent banks in Africa. IDs and NEDS facilitated the acquisition of ABSA by Barclays and the BEE deals that have been concluded to date. These deals assisted in the growth of all banks and shareholder growth argued all the interviewees. The evidence in support of this conclusion comes from document 3, (Demb and Neubauer 1992: 51), each bank's financial statements and interviews carried with EDs, IDs and NEDs.

Table 5.3.1: 59 indicate the ranking of each bank in each category. FNB out of the six measurement tools scored first in three categories (ROA, ROE and Cost to Income Ratio). ROE measures the return on capital employed by shareholders, which means in this case, shareholders for FNB are getting greater value out of their investment more than any other investor in the other banks. Although Chart 5.1.1: 53 shows that Standard Bank posted higher profits than any other bank, ROA reflect otherwise as FNB scored higher on ROA, which means that Standard Banks' assets are not fully employed. There is some capacity which is not being utilized by the directors of Standard Bank, which is a cost to the bank.

Shareholder wealth creation is reflected by the growth in assets or the growth of the balance sheet. Standard Bank as reflected by Chart 5.1.2 shows that the bank managed to grow its balance sheet by over 25% year on year. This growth has not resulted in profit and cash growth resulting in a lazy balance sheet. These assets need to be fully utilized for Standard Bank to realize its full potential. Full employment of assets results in lower cost to income ratio, which results in higher profitability of the bank. Charts 4.1.3, 4.2.3, 4.3.3 and 4.4.3 show the operating trend of all the four banks and how efficient each bank has been over the five years. Constant decline of cost to income ratio is an indication of improved operating efficiency.

Table 5.3.2 is a result of the ranking of performance of each bank on Table 5.3.1 and other qualitative governance attributes discussed in Document 3, which include shareholder activism, skills level, independence and transparency. Quantitatively and qualitatively, FNB performed well above the rest making its board a professional board as it scored highly in each category. Although all banks have highly qualified boards, Nedbank scored lower than any other bank due to its lower ROA, ROE and higher cost to income ratios (Table 5.3.1).

The null hypothesis was proved correct on the entire hypothesizes on Sec 1.8 by Table 5.3.2 that although all the banks are profitable the level of shareholder value creation are different. The failure of the traditional measurement tools to predict and identify fraud and crisis are some of the reflections that they are not sufficient measurement of performance and corporate governance structures. Weakness in Shareholder activism, independence and transparency results in poor governance structures, which affect performance of the bank as reflected by Tables 5.3.1/2.

Director experience and skills were found to be important attributes that trigger positively on the conceptual framework as board are forced to conduct themselves ethically due to requirements of different professional bodies. Accountability, fairness, responsibility and transparency are results of a professional board that observes the rights of all stakeholders and create a shared mindset among board members, resulting in a bank that performs above industry average (Document 2: 25). As (Garratt 2003: 1) argued that, until we see the board's role being professionalized and the supremacy of the board being reasserted, we shall not restore full shareholder confidence. Confidence can only be restored when all the triggers cause positive results on the conceptual framework (Appendix 7).

The triggers that separated the ranking of the banks include shareholder participation, application of the stakeholder theory, independence and efficient utilization of bank resources there by achieving a lower cost to income ratio. Corporate governance practice and bank performance improves when the level of independence is high and when shareholders participate in the formulation and execution of strategies.

6 New knowledge

The analysis of banks has shown that IDs and NEDs are important components of the bank's governance process as evidenced by their contribution in each bank. They have a legal and professional obligation to assist in the formulation of strategies in the bank. The problem is the time they have for the bank with its complex structure, hence document 2 raised the behaviour of the board of Enron that, "we were meant to believe ….. We were misled by management." Although they have a legal obligation to manage risk and improve transparency, their major limiting factor is time they spend in order to understand how banks function.

It was agreed with the Chairman of the King 11 Report that executives must take responsibility of the risks of the operations of the bank not to pass the responsibility to IDs, NEDs, or auditors as they have the stewardship responsibility. Shareholders need to rely on the judgement and honest of the executive directors; document 3: 43 (Freeman 1984) also supported this argument. The board meet at most four times a year this has been observed to be insufficient time. There was a general agreement that IDs, NEDs and EDs should meet on a monthly basis to review the execution of bank strategies and internal controls. Sub-committees needs to meet more often and should meet key employees so that there is a fair understanding of the operations of the bank.

6.1 Audit Committee

Audit committees are sub-committees of the board responsible for assessing the effectiveness of internal controls, risk and implementation of strategies. They are supported by the internal audit function who reports directly to the Chairperson of the Audit Committee. Their role, the author proposes that be enhanced so that they takeover most of the responsibilities of the external audit.

As a result of the complex nature of banks, it takes time for external auditors to understand how banks operate and the level of knowledge required understanding its functions as a whole. Internal audit should be well resourced so that they take the responsibility of managing risk in the bank as they spend more time and they are employees of the bank. It is to their interest that banks secure their continued employment. In order to avoid bullying by management, the head of internal audit should report directly to the Chairman of the Audit Committee who is not an employee of the bank. This will improve transparency and reduce risk as a result of constant internal control reviews by staff with knowledge of the operations of the bank.

6.2 Regulatory framework

Changes about to be implemented as a result of the review of the Companies Act will have the same negative impact that was caused by the (Sarbanes – Oxley Act of 2002) argued interviewee 33. The responsibility and risk that IDs and NEDs carries will result in skilled potential board members declining appointment as they cannot have personal liability in organizations they do not manage. This change will affect the level of skills at board level which will negatively affect performance of companies argued interviewee 18.

6.3 Financial performance

Chart 5.1.1 indicates that Standard Bank was the most profitable bank out of the four banks, while Chapter 4 has reflected the opposite. This has reflected that using one measurement tool will not provide proper evidence of the performance and efficiency of the bank. Other tools like ROA, ROE and Cost to income ratio produced same results, which indicate that FNB was the bank that delivered the highest shareholder value by providing a higher return on investment. Different tools should be used including CFROTA which will be discussed in document 5.

6.4 Independent Auditors

The research has shown a significant growth in audit fees, which cannot be matched to the value they add. If the business is growing at 25% and audit fees are growing at over 80%, then there is a mismatch of interests argued interviewee 33. Auditors cause negative trigger on the conceptual framework (Appendix 7) and shareholder value model. Auditors have a professional and statutory responsibility but research has shown that there is no much value to shareholders as their role can be done by internal audit if properly resourced.

Empirical evidence has shown that auditors are affected by conflict of interest as they cannot loose income by not protecting the interests of executive directors for example the Enron case. Auditors generate most of their income from banks and corporate organizations; hence they have defined them as *"key clients."* This means that they will do everything in their power to retain the client.

Auditing a bank requires a lot of expertise and experience, hence the rotation of audit partners and audit firms affect the reduction of risk and internal controls. Internal audit function will always be part of the bank and will understand the operations of the bank overtime and will be able to mitigate the level of risk argued interviewee 18. Internal audit and audit committees are positive triggers on the conceptual framework and will result in more transparent reporting and compliance to the code of best practice. The researcher therefore propose a reduction in the functions of the auditors so that they can be used as consultants who will assess the level of risks in the bank, while the audit committee will also sign the financial statements together with independent auditors.

6.5 Statement of new and useful knowledge

"Profit is an opinion, while cash is a fact." The argument by (Muth and Donaldson 1998: 5 - 28), of using the conventional methods of measuring effectiveness was found not to be sufficient as they do not measure the generation of cash. The growth in shareholder value is measured by the growth in cash reserves, share price and dividend growth argued interviewee 19.

The conventional ratios do not calculate the growth in cash but only profit and dividend growth. Liquidity calculation is an important factor in identifying the growth of shareholder value. To support this argument the researcher will use a new concept "*CFROTA*" and cash flow to debt ratio in document 5 in order to test whether the increase in cash increases shareholder value and whether this will be a correct measure of shareholder value growth. A null hypothesis is correct, that the conventional accounting measurement tools are not sufficient measurement of shareholder value growth and effectiveness of directors as they exclude the cash component, while IDs and NEDs are required for the effective functioning of the board, through their watchdog, trustee and strategy formulation functions.

7 Research Integration

Experience and social systems are the major triggers that activate the mechanisms on the conceptual framework (Appendix 7), in order for the bank to follow the CG principles, which will result in better corporate performance that add value to shareholders argued respondents (Advocate Myburgh and M King). Like (Nadler 2004: 102 and Leblanc 2004: 437) argued, that the key to better CG lies in the working relationships between executive directors, managers, IDs and NEDs in the social dynamics of board interaction and in the competence, integrity and constructive involvement of individual directors. IDs and NEDs are not necessary as they do not know what is happening in the bank due to their limited time they have for the bank and their dependence on information from the CEO argued, (Mace 1971 and Herman 1981). IDs and NEDs have three responsibilities of being the watchdog, trustees and pilots of strategy formulation (Demb and Neubauer 1992: 51) disagreed with (Mace 1971 and Herman 1981). The author also disagrees with (Mace 1971 and Herman 1981) as IDs and NEDs have been found to be important triggers for value addition. They argued that the boards of today are directed by their professional conduct which requires them to act ethically and professionally. They therefore comply with the requirements of the code of best practice.

7.1 Summary

Various process variables were cross tabulated with overall effectiveness using conventional accounting methods to see if linear trends emerged and the data from the various data sets could be treated as an effective way of measuring board effectiveness. This was not the case for all variables, as they excluded calculation of cash flows, so in the subsequent stepwise logistic regression these variables were treated as categorical. The correlation matrix showed that all the process variables were significantly correlated with overall board effectiveness and with each other. The stepwise logistic regression analysis identified four process variables that best explained variances in overall board effectiveness.

Shareholder activism was observed to be an important attribute which enhance bank performance and improves as shareholders get involved in the administration of the bank. FirstRand was seen as a good example while Investec did not support this argument as Investec has not reached the level of success as FNB. IDs, NEDs and management are appointed with no real power to function but wait for instructions from the owners argued interviewee 34. This was also common in document 2 and the reason why most banks failed. They are appointed to make the numbers with no authority argued interviewee 33.

The evidence in support of this conclusion comes from (White *et al* 2003) who argued that a higher liquidity is an indication of shareholder value. Accounting measurement tools have proved to be insufficient in measuring the effectiveness of the board as they do not measure the gearing and liquidity of the bank. Cash was found to be a true measurement of wealth as it is difficult to manipulate cash received argued (Barnes 2004: 91). A growth in cash is an indication of shareholder value growth. Cash ratios will be tested in document 5 to check if there is going to be any variance with the findings in this document.

8 Conclusion

Conventional accounting measurement tools are important measures of bank performance as they give an indication of how the resources are applied in creating wealth. The major weakness is that they are subject to manipulation argued (Barnes 2004: 91 – 105). Relationships were established during the research that there is positive correlation between cost to income ratio, ROE and profit for the year. The lower the cost to income ratio the higher the profit and higher ROE. There was however no relationship between assets under management and profitability of the bank. This shows that there are some banks with lazy assets, hence not creating the required shareholder value growth.

The bank with the lowest cost to income ratio was graded as the one with the most effective board. FirstRand scored highest in almost all measurement tools from asset utilization, employee to income ratio, asset to income ratio and high average ROE (Appendix 1 to 4). Performance of banks is determined by the level of skills, experience, empowerment and shareholder participation argued interviewee 19.

(Table 5.3.1: 55) shows the results of the scoring as FNB (1), Standard Bank (2), ABSA (3) and Nedbank (4), which resulted in the ranking on Table 5.3.2. Empowerment is the most important variable as management is able to manage the business units they are responsible for as their own. Banks that do not empower their management and staff will always fall bellow the best performer. FirstRand has a unique model of empowering its management hence performs much better than any other bank in SA and Zimbabwe.

8.1 Reflective Critique

There was agreement among the NEDs interviewed that decision management that is initiation and implementation of strategies is an executive function, whereas decision control that is ratification and monitoring is IDs and NEDs' function. Once there is a clear understanding of these roles, transparency will improve argued interviewee 18.

The role of auditors failed in this research to yield results that support the cost that comes with their engagement (Appendix 1 to 4). Legally every public company is required to have auditors, but there has been no research that assesses their effectiveness and whether they add shareholder value. According to (Turnbull 2006) auditors cannot be independent as they have an interest in auditing the bank. This will be left for further research, but the current information suggests that auditors support negative trigger on the conceptual framework as the increase in audit fees does not support the value creation model.

8.2 Looking forward to document 5

Document 2 gave an outline plan for the research that identified proposals for document 5. These include testing the relevance of auditors, IDS and NEDs. Document 5 will test the hypothesis tested in this document and the analysis of the use of CFROTA as a new measurement tool to test effectiveness of directors.

Document 5 will consolidate issues discussed in document 3 and 4 and provide answers to the research questions. New knowledge discovered during the research will be presented and proposals for change of policies and legal requirements will be put forward as the author's contribution to this study.

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10 Appendices

10.1 *Appendix 1: ABSA Performance*

ABSA background

1991 signified the formation of Amalgamated Banks of South Africa Limited (Absa) through the merger of UBS Holdings, the Allied and Volkskas Groups, and certain interests of the Sage Group. The merger was after the near collapse of UBS in 1990. In 1992 Absa acquired the entire shareholding of the Bankorp Group (which included TrustBank, Senbank and Bankfin), thereby extending its asset base even further. In 1997 the name of the holding company, Amalgamated Banks of South Africa Limited was changed to Absa Group Limited, consisting of three main operating divisions.

In 1998 the United, Volkskas, Allied and TrustBank brands were consolidated into a single brand, and Absa adopted a new corporate identity. In 2005, Barclays, acquired a majority stake in Absa as part of its drive to expand its global product and international retail and commercial banking businesses in attractive markets outside the United Kingdom.

The Absa Group Limited (Absa), listed on the JSE Limited, is one of South Africa's largest financial services groups offering a complete range of banking, bancassurance and wealth management products and services. Absa's business is conducted primarily in South Africa and on the Africa continent, where it has equity holdings in banks in Mozambique, Angola, Tanzania and Zimbabwe and other countries including United Kingdom, Germany and Singapore.

At 31 December 2006, Absa had assets of R495 billion, more than 749 physical outlets in SA, 8, 4 million customers, 7 053 automated teller machines and 35,154 permanent employees www.absa.co.za. Absa employs a customer-centric business model with targeted business units serving specific market segments. The Group interacts with its customers through a combination of physical and electronic channels. Absa become a subsidiary of Barclays Bank PLC on 27 July 2005, when Barclays acquired a controlling stake in the Absa Group. Barclays is an international financial services group engaged in retail and commercial banking, credit card issuing, investment banking, wealth management and investment management services.

ABSA Group

Consolidated income statement for the year ended 31 December 2006

	Note	2006	2005
Net interest income		**14,941**	**9,341**
Interest and similar income	29	38,368	23,037
Interest expense and similar charges	30	-23,427	-13,696
Impairment loses on loans and advances	7	**-1,573**	**-569**
Net interest income after imparement loses on loans and advances		13,368	8,772
Net fee and commission income		10,374	7,086
Fee and commission income	31	10,951	7,441
Fee and commission expense	31	-577	-355
Net insurance premium income	32	2,994	1,948
Net insurance claims and benefits paid	33	-1,319	-797
Changes in insurance and investment liabilities	34	-748	-526
Gains and losses from banking and trding activities	35	1,347	855
Gains and losses from investment activities	36	1,916	1,259
Other operating income	37	938	548
Operating income before expenses		**28,870**	**19,145**
Operating expenditure		-17,566	-12,211
Operating expenses	38	-16,620	-11,433
Impairments	40	-75	-54
Indirect taxation	41	-871	-724
Share of retained earnings from associates and joint ventures	12	113	101
Operating profit before income tax		11,417	7,035
Taxation expense	42	-3,151	-2,191
Profit for the year		**8,266**	**4,844**
Attributable to:			
Ordinary equity holders of the group		8,105	4,776
Minority interest - ordinary shares		88	68
Minority interest - preference shares		73	0
		8,266	**4,844**
Basic EPS (cents)	43	1,216.8	721.4
Diluted EPS (cents)	43	1,154.4	692.7
Headline earnings	44	7,872.0	4,902.0
Headline EPS (cents)	44	1,181.8	740.4
Diluted headline EPS (cents)	44	1,121.3	710.9

ABSA Group

Consolidated balance sheet as at 31 December 2006

	Note	2006	2005
Assets			
Cash, cash balances	2	16,461	15,036
Statutory liquid asset portfolio	3	20,829	16,289
Loans and advances to banks	4	21,800	20,805
Trading assets	5	17,983	23,450
Hedging assets	5	676	396
Loans and advances to customers	6	386,174	306,856
Reinsurance assets	9	390	423
Other assets	10	12,175	6,762
Investments	11	13,798	9,904
Investments in associates and joint ventures	12	693	895
Intangible assets	13	230	191
Property and equipment	14	3,750	3,451
Current tax assets	15	24	17
Deferred tax assets	16	129	86
Total assets		**495,112**	**404,561**
Equity and liabilities			
Liabilities			
Deposits from banks	17	35,156	25,745
Trading liabilities	18	23,484	20,915
Hedging liabilities	18	1,902	486
Deposits due to customers	19	368,449	303,945
Current tax liabilities	20	1,181	417
Liabilities under investment contracts	21	5,129	3,459
Policyholder liabilities under insurance contracts	22	3,187	2,736
Borrowed funds	23	8,420	6,483
Other liabilities and sundry provisions	24	10,746	11,812
Deferred tax liabilities	16	2,537	2,562
Total liabilities		**460,191**	**378,560**
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	26	1,338	1,327
Share premium	26	2,067	1,875
Other reserves	28	412	622
Retained earnings		27,876	21,931
		31,693	**25,755**
Minority interest - ordinary shares		236	246
Minority interest - preference shares	27	2,992	0
Total Equity		**34,921**	**26,001**

Total Equity and Liabilities	**495,112**	**404,561**

ABSA Group

Consolidated cash flow statement for the year ended 31 December 2006

	Note	2006	2005
Cash flow from operating activities			
Interest and commissions received		25,156	15,962
Insurance premiums and claims		1,675	1,070
Net trading and other income		1,827	1,239
Cash payments to employees and suppliers		-15,581	-10,698
Income taxes paid	45	-3,333	-2,199
Cash flow from operating profit before changes in operating assets and liabilities		9,744	5,374
Net decrease/inrease in trading securities		5,187	-1,895
Net increase in loans and advances to customers		-80,891	-54,425
Net increase in other assets		-16,464	-3,895
Net increase in insurance and investment funds		1,373	1,520
Net decrease/increase in trading liabilities		3,985	-237
Net increase in amounts due to customers and banks		73,915	52,374
Net decrease/increase in other liabilities		-865	2,124
Net cash (utilized)/generated from operating activities		**-4,016**	**940**
Cash flow from investing activities			
Purchase of property and equipment	14	-1,150	-972
Proceeds from sale of property and equipment		120	192
Purchase of intangible assets	13	-149	-47
Proceeds from disposal of intangible assets		7	0
Acqusition of subsidiaries, net of cash	54	-44	0
Disposal of subsidiaries, net of cash	54	-133	0
Disposal of associates, net of cash		745	54
Acquisition of associates, net of cash		-174	0
Net (increase/decrease in securities		-1,564	2,749
		-2,342	**1,976**
Cash flow from financing activities			
Issue of ordinary shares		197	281
Issue of preference shares		2,992	0
Share buy - back		-17	0
Proceeds from borrowed funds and debt securities		2,000	1,500
Repayment of borrowed funds and debt securities		-6	-750
Dividend paid		-2,367	-2,401
Net cash generated/(utilized) from financing activities		**2,799**	**-1,370**
Net (decrease)/increase in cash and cash equivalents		-3,559	1,546
Cash and cash equivalents at the beginning of the year		8,343	6,796
Effect of exchange rate movement on cash equivalents		3	1
Total cash and cash equivalents at the end of the year		**4,787**	**8,343**

ABSA Group

Statistics, Returns and Capital adequacy five year review	December 2006	12 months Pro forma December 2005	March 2005	March 2004	March 2003	March 2002
Number of ordinary shares in issue listed on the JSE (R000)	671,955	666,855	655,055	651,055	651,547	651,547
Dividend cover (times)	2.5	n/a	2.8	3.8	3.6	2.5
Dividend yield (%)	3.7	n/a	3.9	3.9	4.9	4.6
Earnings yield (%)	9.4	9.4	11.0	14.7	17.9	11.5
Price earnings ratio (times)	10.6	10.6	9.1	6.8	5.6	8.7
Price - to - book (times)	2.65	2.62	2.11	1.56	1.14	1.07
Share price (cents) - high	12,615	10,320	8,150	4,700	3,651	4,155
- low	9,650	7,125	4,320	3,000	2,500	2,410
- closing	12,510	10,100	7,540	4,664	2,940	2,530
Number of shares traded (.000)	35,926	33,492	27,892	17,931	13,894	12,081
Turnover in shares traded (%)	326,112	391,557	455,513	457,727	440,314	365,926
Market capitalization (Rm)	84,061.6	67,352.4	49,391.2	30,365	19,156	16,484
Dividend cover (cents)	473.0	n/a	295.0	182.0	145.0	116.0
Share statistics per ordinary share (cents)						
Basic earnings (cents)	1,216.8	950.3	831	697.5	520.5	260
Headline (Cents)	7,872	6,282	5,394	4,447	3,441	1,888
Diluted EPS (cents)	1,154.4	915.9	801.6	691.7	520.5	260
Dividend paid (cents)	473.0	n/a	295.0	182.0	145.0	116.0
Return on equity (%)	27.4	25.6	25.3	24.6	21.4	12.9
Cost to income ratio	54.6	57.0	56.6	57.1	60	60.3
Number of employees	35,154	33,543	32,515	31,658	32,356	35,283
Revenue per employee ®	0.87	0.76	0.70	0.65	0.56	0.46
Expenses per employee ®	-0.47	-0.44	-0.39	-0.37	-0.33	-0.27
Headline earnings per employee ®	229.2	190.2	168.1	138.9	101.7	53.2
Total assets (Rm)	495,112	404,561	347,161	306,848	269,064	247,300
PBITDA	12,476	8,914	8,666	7,130	5,452	4,972
Cash Generation	28,658	18,271	11,017	9,293	7,715	6,988
Audit fees	69	129	70	49	39	32
Revenue	30,443	25,590		20471	17959	16078

			22,599			
Profit for the year	8,266	6,337	5,494	4,596	3,461	1,306
CFROTA	2.52%	2.20%	2.50%	2.32%	2.03%	2.01%
Cash to Total Assets Ratio	5.79%	4.52%	3.17%	3.03%	2.87%	2.83%

10.2 *Appendix 2: FirstRand Bank Performance*

FNB background

FirstRand was created in April 1998 through the merger of the financial service interests of Anglo American Corporation of South Africa Limited (AAC) and RMB Holdings Limited (RMBH). The major companies involved at the time were the listed entities, First National Bank Holdings of Southern Africa Limited (FNBH) and the Southern Life Association Limited (Southern Life), which was controlled by AAC and Momentum Life Assurers Limited (Momentum), the holding company of Discovery Health Limited and Rand Merchant Bank Limited which was controlled by RMBH www.firstrand.co.za.

Momentum was used as the vehicle to effect the merger. In terms of the scheme of arrangement, Southern Life and FNBH shareholders received 675 Momentum shares in exchange for every 100 shares held. In addition, Momentum raised R5,1 billion by way of a rights issue in terms of which 572,7 million shares were issued at a price of 900 cents per share. The purpose of the rights issue was to facilitate the elimination of cross-holdings which existed between Southern Life and FNBH. Momentum changed its name to FirstRand Limited and was listed on the Johannesburg Stock Exchange on 25 May 1998. A day later a similar listing occurred on the Namibia Stock Exchange. The vision was to create a new group of companies structured with critical mass to take advantage of the convergence of banking and insurance products and services without the limitations imposed by minorities in operating companies.

Following pressure from shareholders to concentrate their efforts on mining and resources related activities, AAC and its associate De Beers undertook to sell their shares when prices were appropriate. De Beers sold their shares in the open market, while AAC reduced their holding in FirstRand from 20,4% to 5,25% following a deal with Remgro Limited. Remgro exchanged a portion of their newly acquired FirstRand shares for shares in RMB Holdings. This exchange allowed RMB Holdings to increase its holding in FirstRand from 25% to 32,83%. Remgro retained a 9,32% interest in FirstRand. AAC disposed of the remainder of its shares over a period of time with the last of its shares being sold in December 2003 www.firstrand.co.za.

In February 2005 the Group sold an effective 10% interest in FirstRand to four broad-based empowerment groups, Kagiso Trust, Mineworkers Investment Trust ("MIT"), WDB trust and the FirstRand Empowerment Foundation (a newly created FirstRand BEE entity, with a mandate for broad-based transformation, and black South African FirstRand staff and non-executive directors.

The Group selected its BEE partners because they share FirstRand's objectives of enhancing broad-based BEE by addressing the needs of a wide constituency. In addition, the BEE partners have excellent reputations, successful track records and long standing relations with FirstRand and with each other, which will add value to shareholders and other stakeholders.

FirstRand represents a very different proposition to its peers in that it is the only fully integrated financial services group in South Africa. It is also the only one of the big-four South African retail, commercial and investment banking groups that is "owner-managed". The three original founders, GT Ferreira, Paul Harris and Laurie Dippenaar are all still actively involved in the management of the Group and collectively management own 23% of RMB Holdings Limited which in turn owns 29.5% of FirstRand Limited.

A unique business philosophy

The FirstRand business philosophy has been home-grown, developed and ingrained into the Group over the past 25 years and it has its roots in an entrepreneurial culture. At its heart is the understanding that people are the single most important resource and FirstRand aspires to create an environment that attracts and retains entrepreneurial self-starters. Although there is a bias for action, the Group aspires to act within the context of clearly thought through strategic and operational plans, hallmarked by innovative thinking which makes bottom line sense.

Participative, non-hierarchical decision making in the context of vigorous debate of the business case, with no holy cows and no barriers to communication, lies at the core of the way it does business. This is the common value system on which the entire group operates. This philosophy creates a liberating owner-manager culture. Strategies are owned and delivered on by the profit centre leaders because they conceived them. Every one of the Group's many profit centers has a strategy to grow market share, revenues and earnings. Each CEO is empowered and incentivised to deliver better than his/her budget at the end of the year. The structure and business philosophy means that FirstRand has many growth stories for onwards argued Nxasana.

FirstRand Group

Consolidated income statement for the year ended 31 December 2006

	Note	2006 Rm	2005 Rm
Net interest income		**15,012**	**13,184**
Interest and similar income	3	30,395	27,505
Interest expense and similar charges	4	-15,383	-14,321
Impairment loses on loans and advances		**-1,411**	**-706**
Impairment of advances - specific		-1,132	-756
Impairment of advances - portfolio		-279	50
Net fee and commission income	**5**	**12,009**	**9,878**
Net insurance premium income		14,088	11,835
Fee and commission expense		-2,079	-1,957
Net insurance premium income	**6**	**6,822**	**7,423**
Insurance premium revenue		7,758	8,111
Premium ceded to reinsurers		-936	-688
Net claims and benefits paid	**7**	**-6,174**	**-8,861**
Gross claims and benefits paid on insurance contract		-6,875	-9,348
Reinsurance recoveries		701	487
Net gains from banking and trading activities	8	4,349	2,187
Net gains from investment activities	8	19,225	16,003
Other operating income	8	2,268	1,715
Increase in value of policyholder liabilities		-17,430	-13,447
Fair value adjustment to financial liabilities	9	-530	-232
Net operating income		**34,140**	**27,144**
Operating income before expenses	**10**	-20,402	-16,836
Operating expenditure		-20,344	-16,825
Other impairments		-58	-11
Share of profit of associates and joint venture companies		1,290	1,076
Income before discontinued operations		15,028	11,384
Loss on disposal of discontinued operations	37	0	-67
Operating profit before income tax		**15,028**	**11,317**
Taxation	11	-5,040	-3,610
Profit for the year		**9,988**	**7,707**
Attributable to:			
Ordinary equity holders of the group		8,825	7,137
Minority interest - preference shares		274	68
Total for equity holders of the company		**9,099**	**7,205**
Minority interest - ordinary shares		889	502
Profit for the year		**9,988**	**7,707**
Basic EPS (cents)	12	171.6	137.3
Diluted EPS (cents)	12	166.0	134.5
Headline earnings		156.9	132.4

Headline EPS (cents)	157.8	129.3
Diluted headline EPS (cents)	152.6	126.7

FirstRand Group

Consolidated balance sheet as at 31 December 2006

	Note	2006	2005
Assets		**Rm**	**Rm**
Cash and short term funds	13	30,323	24,890
Money market investments		16,361	11,427
Advances		291,076	221,851
- Originated		236,370	175,475
- Held to maturity		698	7,449
- Available for sale		538	1,648
- Elected fair value		53,470	37,279
Derivative financial instruments	15	373,934	39,795
- Qualifying for hedge accounting		428	811
- Held for trading		373,506	38,984
Investment securities and other investments	16	165,054	125,582
- Financial instruments held for trading		28,348	20,728
- Investment securities		136,706	104,854
* Held to maturity		998	2,880
* Available for sale		22,947	16,100
* Elected fair value		112,761	85,874
Non recourse investments		8,794	8,181
Commodities	16	676	439
Investment properties	17	6,141	4,172
Policy loans on insurance contracts		118	0
Policy loans on insurance contracts		0	530
Reinsurance assets	18	292	236
Insurance assets		1,766	1,881
Loans and receivables	19	6,046	11,548
Investments in associates and joint ventures	20	5,069	5,707
Taxation		7	118
Intangible assets	22	4,076	1,178
Property and equipment	23	5,011	4,610
Deferred taxation	24	1,043	594
Total Assets		**579,787**	**462,739**
Equity and liabilities			
Liabilities			
Deposits		317,840	245,793
- Deposits and current accounts		309,304	237,888
- Non recourse deposits	16	8,536	7,905
Short trading positions	26	25,967	19,919
Derivative financial instruments	15	22,370	30,264

- Qualifying for hedge accounting		257	249
- Held for trading		22,113	30,015
Creditors and accruals		16,848	23,257
Reinsurance liabilities		24	31
Policyholders' liabilities under investment contracts	32	93,720	48,844
Policyholders' liabilities under insurance contracts	33	40,740	49,001
Liabilities arising to third parties	34	1,725	1,027
Deferred revenue liability	35	248	0
Post retirement funding liability	27	1,635	1,733
Debentures and long - term liabilities	28	10,576	5007
Provisions	29	2,407	1,567
Taxation liability		1,024	185
Deferred taxation	24	5,159	3,877
Total liabilities		**540,283**	**430,505**
Shareholders' equity			
Ordinary share capital and share premium	30	3,635	4,396
Non-cumulative non-redeemable preference shares		4,519	2,992
Distributable reserves		24,854	20,284
Non distributable reserves		3,522	2,238
Total shareholders		**36,530**	**29,910**
Minority interest		2,974	2,324
Total shareholders' equity and liabilities		**579,787**	**462,739**

FirstRand Group

Consolidated cash flow statement for the year ended 31 December 2006

	Note	2006	2005
Cash flow from operating activities			
Cash receipts from customers	38.2	54,053	47,451
Cash paid to customers, employees and suppliers	38.3	-27,670	-28,013
Dividends received		1,327	988
Dividends paid		-3,651	-2,835
Net cash flows from operating activities	38.1	24,059	17,591
Increase in income earning assets	38.4	-98,204	-30,051
Increase in deposits and other liabilities	38.5	80,280	22,249
Net cash flows from operating funds		-17,924	-7,802
Taxation paid	38.6	-3,257	-3,298
Net cash inflow from operating activities		**2,878**	**6,491**
Cash flow from investing activities			
Purchase of property and equipment		-1,329	-388
Proceeds from disposal of equipment		105	0
Purchase of investments		-46	-10,484
Proceeds from disposal of investments		319	0
Proceeds from disposal of subsidiary	38.7	67	1,019
Purchase of associates		-269	-1,316
Proceeds from disposal of associates	38.8	907	0
Purchase of intangible assets		-36	-238
Net cash outflow from investment activities		**-282**	**-11,407**
Cash flow from financing activities			
Increase in/(repayment of) long - term borrowings		5,469	-693
Proceeds from share issue		1,526	3,000
Net cash inflow from financing activities		**6,995**	**2,307**
Net increase/(decrease) in cash and cash equivalents		9,591	-2,609
Cash and cash equivalents at the beginning of the year	38.9	36,317	40,253
Cash and cash equivalents at the end of the year		45,908	37,644
Cash and cash equivalents sold		-52	-1,335
Cash and cash equivalents bought		828	8
Total cash and cash equivalents at the end of the year		**46,684**	**36,317**

FirstRand Group

Statistics, Returns and Capital adequacy five year review

	2006	**2005**	**2004**	**2003**	**2002**
Number of ordinary shares in issue listed on the JSE (R000)	5634.1	5613.6	5476.4	5445.3	5445.3
Dividend cover (times)	2.45	2.38	1.89	2.37	3.03
Dividend yield (%)	**3.9**	**3.97**	**4.51**	**4.58**	**3.73**
Earnings yield (%)	0.06	0.09	0.08	0.10	0.12
Price earnings ratio (times)	10.78	10.56	9.23	8.50	9.24
Price - to - book (times)	2.52	2.4	2.30	2.10	1.80
Share price (cents) - high	2,120	1,480	1,049	815	905
- low	1,365	965	725	597	615
- closing	1,690	1,387	1,019	764	765
Number of shares traded (.000)	2,771	2,044	2,256	1,986	2,018
Turnover in shares traded (%)	95.22	77.86	55.80	41.71	41.66
Market capitalization (Rm)	49,491	25,423	19,701	14,086	15,580
Share statistics per ordinary share (cents)					
Basic earnings	171.6	137.25	109.3	86.2	82.5
Diluted EPS	165.96	134.5	106.8	84.5	82.5
Headline earnings					
- Basic	157.79	129.29	110.3	92.5	86.9
- Diluted	152.6	126.7	107.7	90.7	86.9
Dividend paid	65.99	55.1	46	35	28.5
- Interim	32	26.6	19.25	16.5	13.5
- Final	33.99	28.5	26.75	18.5	15
Return on equity (%)	25.1%	25.2%	25.4%	22.6%	25.2%
Cost to income ratio	53.8	56.6	56.9	57	55.5
Number of employees	43	39	36	35	34
Revenue per employee ®	707	705	650	640	633
Total assets (Rm)	579,787	462,739	424,821	393,674	374,766
PBITDA	16,376	12,471	7,711	5,712	4,516
Cash Generation	24,059	17,591	16,312	15,431	14,678
Audit fees	97	74	80	62	54
Profit for the year	8,825	7,137	5,676	4,516	4,495
Revenue (Rm)	30,395	27,505	23,417	22,412	21,528
CFROTA	2.82%	2.70%	1.82%	1.45%	1.21%
Cash to Total Assets Ratio	4.15%	3.80%	3.84%	3.92%	3.92%

10.3 *Appendix 3: Nedbank Performance*

Nedbank background

Nedbank Group Limited is a bank holding company, which operates as one of the four largest banking groups in South Africa through its principal banking subsidiaries, Nedbank Limited and Imperial Bank Limited, in which it has a 50,1% interest. The company's ordinary shares have been listed on JSE Limited since 1969. In 1973, Nedbank Group Limited was formed from the merger of Syfrets SA and Union Acceptances Limited and Nedbank Limited.

The group offers a wide range of wholesale and retail banking services through three main business clusters: Nedbank Corporate; Nedbank Capital; and Nedbank Retail. Nedbank Group focuses on southern Africa, with the group positioned to be a bank for all – both from a retail and a wholesale banking perspective. The principal services offered by the group are corporate and retail banking, property finance, investment banking, private banking, foreign exchange and securities trading. Nedbank Group also generates income from private equity, credit card acquiring and processing services, custodial services, collective investments, trust administration, asset management services and bancassurance. Imperial Bank focuses mostly on motor vehicle finance, which it markets through its Motor Finance Corporation (MFC) brand. In addition, it also offers property, medical and aviation finance.

Nedbank Group's head office is in Sandton, Johannesburg, with large operational centres in Durban and Cape Town, which are complemented by an extensive branch and support network throughout South Africa and facilities in Lesotho, Malawi, Namibia, Swaziland and Zimbabwe. These facilities are operated through Nedbank Group's eight subsidiary and/or affiliated banks, as well as through branches and representative offices in London and on the Isle of Man to meet the international banking requirements of the group's South African-based multinational and private clients.

In August, 2006 the group unveiled its much anticipated black economic empowerment (BEE) transaction in Namibia which resulted in a broad range of black stakeholders acquiring direct ownership of N$308 million of the Old Mutual Group's Namibian businesses. The transaction incorporated three separate but inter-dependent BEE transactions for the Old Mutual Group subsidiaries in Namibia, namely Old Mutual Namibia, Nedbank Namibia and Mutual & Federal Namibia.

At the annual general meeting on 4 May 2005, shareholders formally approved the resolution to change the name of the holding company from Nedcor Limited to Nedbank Group Limited with effect from close of business on 13 May 2005. The group's BEE deal 'Eyethu' was announced. The deal broke new ground in the area of black economic empowerment as it was the first truly broad-based deal to be announced with tens of thousands of stakeholders. Valued at more than R3 billion, a broad range of black stakeholders including employees, retail and corporate clients, community groups, strategic black business partners (Wiphold and Brimstone) and non-executive directors acquired a holding of 9,33 % in the group.

2004 was a watershed year for the group as both structural and strategic changes were implemented to restore the performance of the group and lay a foundation for sustainable growth into the future. The group delivered on its commitments including:

- A thorough balance sheet clean-up and successful R5,15 billion rights offer
- Substantially reducing the bank's risk profile, including reduced foreign exchange exposure and volatility and reduced interest rate risk
- Increased management accountability with management teams restructured and 70 out of the top 100 management in new positions
- Implementation of a clear strategic direction with a three-year plan in place with detailed targets
- A comprehensive restructure, following the strategy, which included a devolution of product, processes, credit and branch operations from the centre into the line units, the sale of non-core assets and the decision to integrate Peoples Bank into Nedbank
- The merger was delivered and the group is on track for annual synergy savings of R700 million; and
- Improved management information systems and reporting, including improved activity justified transfer pricing, funds transfer pricing and capital allocation.

On 1 January 2003 the new Nedcor Group was formed, combining Nedcor, BoE, NIB and Cape of Good Hope Bank into one legal entity. New management structures came into effect allowing these entities to become a fully integrated business. The group now has banking licenses for Nedbank, Peoples Bank and Imperial Bank in South Africa, Gerrard private Bank in the United Kingdom and several licenses in the rest of Africa and the Middle East.

On 2 July 2002, the High Court gave its approval for Nedcor to acquire all the issued shares and convertible debentures of BoE, thereby paving the way for the Nedcor/ BoE merger. This final step in the approval process meant that the formation of one of South Africa's leading banks with assets of more than R270 billion became a reality. This merger heralded a new era in the history of BoE and Nedcor. For BoE, it offered the opportunity to continue a long and proud tradition of banking excellence and personal service. For Nedcor, the financial expertise and the quality of BoE's people will continue to further enrich its offering to the public. NIB minority shares were acquired by Nedcor Limited in October 2002. NIB was delisted. Nedcor Bank Limited changed its name to Nedbank Limited in November 2002.

Nedcor Limited and Old Mutual South Africa Limited announced the proposed merger of Permanent Bank and Old Mutual Bank to form a new banking operation focused on wealth management and financial planning in 2002. The merged operation is a custom-built bancassurance institution focused on the retail middle market in South Africa. Nedcor and Old Mutual each own 50 percent of the new bank. The new bank, operating as Old Mutual Bank, was to initially offer a full range of deposit and investment accounts, home loans, secured loans and other wealth management products.

Nedcor Bank acquired FBC Fidelity Bank Limited in 2001. BoE Corporation Limited unbundled its shares in BoE Limited and then delisted. The unbundling by BoE Corporation Limited of its shares in BoE Limited and its subsequent delisting could maybe mentioned here, along with the unbundling by BoE Limited of its share in RMBH, and the sale of other non-core investments which resulted in the challenges that faced the bank in 2002/3.

Nedbank Group

Consolidated Income Statement for the year ended 31 December 2006

	Note	2006 Rm	5005 Rm
Interest and similar income	8	28,521	23,234
Interest expense and similar charges	9	-17,558	-14,705
Net interest income		10,963	8,529
Impairement loses on loans and advances	24.1	1,483	1,189
Income from lending activities		9,480	7,340
Non - interest revenue	10	9,468	8,469
Operating income		**18,948**	**15,809**
Total operating expenses		**11,886**	**11,017**
Operating expenses	11	11,740	10,469
Merger and recovery programme expenses	12.1	0	155
BEE transaction expenses	12.2	146	393
Indirect taxation	13	345	223
Profit from oprations before non - trading and capital items		**6,717**	**4,569**
Non - trading and capital items	14	124	701
Profit from oprations		6,841	5,270
Share of profit of associates and joint ventures	28.2	153	167
Profit before direct taxation		6,994	5,437
Direct taxation	15.1	1,933	1,140
Profit for the year		**5,061**	**4,297**
Profit attributable to:			
Equity holders of the parent		4,533	3,836
Minority interest - ordinary shareholders		309	233
Minority interest - preference shareholders		219	228
		5,061	4,297
Basic EPS (cents)	16	1,135	966
Diluted EPS (cents)	16	1,099	958
Dividend paid per share (cents)	17.1	394	181
Dividend declared per share (cents)	17.1	493	290

Nedbank Group

Consolidated Balance Sheetas at 31 December 2006

	Note	2006 Rm	5005 Rm
Assets			
Cash and cash equivalents	18	12,267	11,142
Other short - term securities	19	25,756	17,014
Derivative financial instruments	20.1	15,273	16,176
Government and other securities	22	22,196	22,658
Loans and advances	23-24	308,563	248,408
Other assets	25	12,468	11,601
Clients' indebtedness for acceptances		2,577	1,291
Current taxation receivables	26	161	134
Investment securities	27	7,155	6,875
Non - current assets held for sale	29	490	385
Investments in associates and joint ventures	28	907	657
Deferred taxation asset	30	120	680
Investment property	31	158	163
Property and equipment	32	3,377	3,095
Long - term employee benefit assets	33	1,444	1,225
Computer software and capitalized development costs	34	1,266	1,320
Mandatory reserve deposits with central bank	18	7,039	5,747
Goodwill	35	3,695	3,687
Total assets		**424,912**	**352,258**
Total equity and liabilities			
Ordinary share capital	36.1	395	402
Ordinary share premium		9,727	10,465
Reserves		14,994	11,623
Total equity attributable to equity holders of the parent		**25,116**	**22,490**
Minority shareholders' equity attributable to:			
- Ordinary shareholders		1,202	1,049
- Preference shareholders	36.2	3,070	2,770
Total equity		**29,388**	**26,309**
Derivative financial instruments	20.1	12,904	17,055
Amounts owed to depositors	37	324,685	261,311
Other Liabilities	37.4	37,847	32,357
Liabilities under acceptances		2,577	1,291
Current taxation liabilities	26	434	466
Other Liabilities held for sale	29	417	0
Deferred taxation liabilities	30	1,649	959
Long - term employee benefit liabilities	33	1,215	1,071
Investment contract liabilities	38	5,278	4,166
Long - term debt instruments	39	8,518	7,273

Total liabilities	**395,524**	**325,949**
Total equity and liabilities	**424,912**	**352,258**

Nedbank Group

Consolidated Cash Flow Statement for the year ended 31 December 2006

	Note	2006 Rm	5005 Rm
Cash generated by operations	43.1	**9,297**	**6,898**
Cash received from clients	43.2	37,806	31,329
Cash paid to clients, employees and suppliers	43.3	- 28,561	-24,788
Dividends received on investments		173	140
Recoveries on loans previously written off		296	226
Effects of exchange rate changes on cash and cash equivalents		-417	-9
Change in funds for operating activities		-3,739	2,023
Increase in operating assets	43.4	- 71,591	-17,986
Increase in operating liabilities	43.5	67,852	20,009
Net cash from operating activities before taxation		5,558	8,921
Taxation paid	43.6	-953	-852
Cash flow from operating activities		**4,605**	**8,069**
Cash flow utilised by investing activities		**-1,057**	**-927**
Acquisition of property and equipment		-1,097	-750
Proceeds on disposal of property and equipment		57	132
Net disposal(acquisition) of investment banking assets		6	-228
Net acquisition of investments in associates and other investments		-273	-82
Disposal of investments in subsidiary companies net of cash	43.7	286	1
Acquisition of investments in subsidiary companies net of cash	43.8	-36	0
Cash flow utilised by financing activities		**-1,131**	**-303**
Ordinary shares (repurchased/issued)		-745	581
Increase/decrease in long - term debt instruments		1,245	-36
Shares issued/repurchased by subsidiary company		150	107
Dividends paid to ordinary shareholders		-1,562	-727
Preference dividends paid		-219	-228
Net increase in cash and cash equivalents		2,417	6,839
Cash and cash equivalents at the beginning of year		16,889	10,050
cash and cash equivalents at the end of year		**19,306**	**16,889**

Nedbank Group

Five year review: Statistics and ratios

	2006	**2005**	**2004**	**2003**	**2002**
Number of ordinary shares in issue listed on the JSE (R000)	451,000	443,000	394,000	275,000	271,000
Dividend cover (times)	-56	-41			
Dividend yield (%)	3.7%	2.9%	1.5%	3.9%	4.6%
Earnings yield (%)	8.3%	8.0%	6.2%	0.3%	8.8%
Price earnings ratio (times)	12	13	16	326	11
Price - to - book (times)	2.1	1.8	1.7	1.5	1.8
Share price (cents) - high	13,950	10,280	7,999	11,850	15,400
- low	9,790	6,700	5,240	5,640	9,500
- closing	13,350	10,000	7,780	6,203	11,110
Number of shares traded (.000)	191700	168100	245800	216000	143.8
Turnover in shares traded (%)	48	42.3	68.1	73.7	56.8
Market capitalization (Rm)	60.2	44.3	30.7	17.1	30.1
Price earnings ratio	12	13	16	326	11
Dividend cover (cents)	2.25	2.75	4	0.1	1.9
Cost to income ratio	58.2	64.8	71.8	80.2	65.4
Share statistics per ordinary share (cents)					
Basic earnings (cents)	1135	966	423	-546	346
Headline (Cents)	1110	797	483	19	979
Diluted EPS (cents)	1099	958	422	-545	343
Dividend paid (cents)	493	290	120	240	515
Return on equity (%)	18.6%	15.5%	11.0%	0.4%	14.9%
Price earnings ratio					
Number of employees	24,034	22,188	21,103	24,205	25,240
Revenue per employee ®	788,383	712,502	664,692	466,102	415,769
Expenses per employee ®	494,549	496,530	518,362	427,350	288,590
Headline earnings per employee ®	184,530	142,735	82,595	2,222	111,486
Total assets (Rm)	424,912	352,258	327,840	313,113	324,767
PBITDA	7,616	6,528	1,934	-2,826	-493
Cash Generation	9,297	6,898	3,978	2,124	1,401
Audit fees	60	68	64	66	31
Profit for the year	5,061	4,297	1,882	-1,334	1,078
CFROTA	1.79%	1.85%	0.59%	-0.90%	-0.15%
Cash to Total Assets Ratio	2.19%	1.96%	1.21%	0.68%	0.43%

10.4 *Appendix 4: Standard Bank Performance*

Standard Bank background

Standard Bank is a South African-based financial services company with a global presence. We operate from 17 African countries and 21 countries on other continents, including the key financial centres of Europe, the Americas and Asia. Standard Bank was established as the Standard Bank of British South Africa Limited, and incorporated in London in 1862. The word "British" was dropped from the title in 1883. Standard Bank Group is listed on the JSE Securities Exchange, share code SBK.

In 1962 The Standard Bank of South Africa (SBSA) was formed and registered as a South African company, operating as a subsidiary of Standard Bank in London (subsequently to become Standard Chartered Bank plc). Standard Bank Group was established in 1969 as Standard Bank Investment Corporation - the holding company of SBSA. Standard Chartered sold its 39% stake in Standard Bank Group in 1987, transferring complete ownership of the holding company to South Africa.

The re-establishment of Standard Bank's African links began in 1988, when a branch was set up in Swaziland. In 1992 the group opened a Botswana bank and acquired a major African operation: the long-established ANZ Grindlays network in Botswana, Kenya, Uganda, Zaire, Zambia and Zimbabwe, with minority holdings in Ghana and Nigeria.

The group has also continued to expand internationally. Standard Bank London was established in 1992 and in the same year operations in Jersey and the Isle of Man were acquired. Two years later, the Isle of Man bridgehead was broadened considerably with the acquisition of Standard Chartered's banking activities on the island. Standard Bank also has a full branch in Taipei and full bank status in Russia, Hong Kong, Singapore and Brazil. Standard Bank Group completed the acquisition of Jardine Fleming Bank Limited (JF Bank) in July 2001. The group has a wide representation which spans 18 African countries and 21 countries outside of Africa with an emerging markets focus.

Standard Bank's equity is widely dispersed compared to most other similar institutions in South Africa. The Public Investment Corporation is the biggest beneficial shareholder and holds 13,3% of its shares. Other large holders among the more than 25 000 shareholders are Old Mutual (8, 9%), Tutuwa Group (7,6%), Liberty Group (2,8%), Investment Solutions (3,0%) and Sanlam Group (2,6%). Non-residents hold approximately 23, 2%.

Standard Bank Group is one of the big four full-service South African banks. The group operates in a range of banking and related financial services. The group has a wide representation which spans 18 African countries and 21 countries outside of Africa with an emerging markets focus.

Standard Bank Group

Consolidated Income Statement for the year ended 2006

	Note	2006 Rm	2005 Rm
Income from banking Activities		**36,366**	**28,981**
Net interest income		16,654	13,015
Interest Income	25.1	50,855	38,625
Interest expense	25.2	34,201	25,610
Non - Interest Revenue	25.3	19,712	15,966
Income from Investment and Life Insurance activities		**59,344**	**53,066**
Net Investment premium	25.4	20,066	18,979
Investment Income and Gains	25.5	37,568	32,240
Management and Service fee income		1,710	1,847
Total Income		**95,710**	**82,047**
Credit Impairment Charges	25.6	2,733	1,207
Benefits due to Policyholders		47,896	41,529
Net Insurance benefits and claims		38,140	32,816
Fair value adjustment to Policyholders' liabilities under investment		8,276	6,834
Fair value adjustment on third party fund interests		1,480	1,879
Income after credit impairment charges and Policyholders' benefits		**45,081**	**39,311**
Operating expenses in banking activities		19,652	16,441
Staff costs	25.7	11,001	9,370
Other operating expenses	25.8	8,651	7,071
Operating expenses in investment and life insurance activities		**6,486**	**8,006**
Acquisition costs - insurance and investment contracts		2,413	3,594
Other operating expenses	25.8	4,073	4,412
Net income before goodwill		**18,943**	**14,864**
Goodwill Impairment	25.9	15	421
Net income before associates and joint ventures		18,928	14,443
Share of profits from associates and joint ventures	12	275	226
Net income before indirect taxation		19,203	14,669
Indirect taxation	27.1	841	778
Profit before direct taxation		18,362	13,891
Direct taxation	27.2	5,852	4,312
Profit for the year		12,510	9,579
Attributable to minorities		1,723	921
Attributable to equity holders of the parent		**10,787**	**8,658**
Attributable to preference shareholders		269	226
Attributable to ordinary shareholders		10,518	8432

Basic EPS (cents)	29	864.5	699.7
Diluted EPS (cents)	29	820.1	668.4
Dividend per share (cents)	29	320.0	267.0

Standard Bank Group

Consolidated Balance Sheet as at 31 December 2006

	Note	2006 Rm	2005 Rm
Assets			
Cash balances with banks	3	74,154	71,244
Short term negotiable securities	4	29,175	25,931
Derivative assets	5	100,832	101,502
Trading assets	6	81,569	38,387
Investments	7	186,896	147,146
Investment property	8	13,200	12,637
Loans and advances	9	448,411	338,773
Loans and advances to banks	9	35,677	29,805
Loans and advances to customers	9	412,734	308,968
Current and deferred taxation	10	1,043	990
Other assets	11	16,975	13,237
Non - current assets for disposal	32	0	2,380
Interest in associates and joint ventures	12	8,584	6,417
Goodwill and other intangible assets	13	2,910	2,453
Property and equipment	14	5,242	4,593
Total Assets		**968,991**	**765,690**
Equity and liabilities			
Equity		**55,244**	**41,692**
Equity attributable to ordinary shareholders		43,326	32,931
Ordinary share capital	15	136	135
Ordinary share premium	15	2,303	2,107
Reserves		40,887	30,689
Preference share capital and premium	15	5,503	2,991
Minority interest		6,415	5,770
Liabilities		**913,747**	**723,998**
Derivative Liabilities	5	103,122	103,482
Trading liabilities	17	36,790	21,462
Deposit and current accounts	18	545,164	413,623
Deposits from banks	18	48,374	27,584
Deposits from customers	18	496,790	386,039
Current and deferred taxation	19	7,880	6,926
Other liabilities	20	34,323	23,759
Non - current liabilities for disposal	32	0	1,267
Policyholders" liabilities	21	168,898	140,835
Subordinated debt	22	17,570	12,644
Total Equity and Liabilities		**968,991**	**765,690**

Standard Bank Group

Consolidated Cash flow statement for the year ended 2006

	Note	2006 Rm	2005 Rm
Operating Activities			
Cash receipts from customers	31.2	103,353	83,651
Cash paid to customers, employees and suppliers	31.3	-83,559	-67,415
Dividends received	31.4	3,969	3,075
Net cash flows from operating activities	31.1	23,763	19,311
Changes in operating funds			
Increase in income - earning assets	31.5	-147,418	-64,271
Increase in deposits and other liabilities	31.6	142,993	90,457
Net cash flows (used in/from) operating funds		-4,425	26,186
Direct taxation paid	31.7	-5,176	-2,419
Investing activities			
Capital expenditure - Property		-341	-395
- Equipment, furniture and vehicles		-1,433	-1,153
- Intangibles		-570	-203
Proceeds from sale of - Property		103	124
- Equipment, furniture and vehicles		163	187
Net sale of investment properties		617	281
Net increase in investments by insurance operations		-12,915	-874
Acquisition of minority share - unincorporated proprty partnership		0	-856
Proceeds from sale of subsidiaries	32.1	1,321	0
Net cash paid on acquisition of subsidiaries	31.8	0	-1,771
Net disposal of reinsurance assets and other investments		0	73
Increase in investment in existing subsidiaries		-267	-526
Net increase in investment in associates		-189	-408
Net cash flows used in investing activities		**-13,511**	**-5,521**
Financing activities			
Proceeds from issue of share capital to shareholders		2,811	245
Net proceeds from issue and repurchase of share capital to minorities		0	24
Repurchase of company shares		-102	-679
Increase in subordinated debt		4,682	2,966
Dividends		-5,204	-4,610
Net cash flows from/(used in) financing activities		**2,187**	**-2,054**
Effects of exchange rate changes on cash and cash equivalents		3,316	2,368
Net increase in cash and cash equivalents		6,154	37,871
Cash and cash equivalents at the beginning of the year		97,175	59,441
Reclassified to non - current assets for disposal	32	0	-137
Cash and cash equivalents at end of the year	31.10	**103,329**	**97,175**

Standard Bank Group

Statistics, Returns and Capital adequacy seven year review

	Note	2006	2005	2004	2003	2002
Number of ordinary shares in issue listed on the JSE (R000)						
- weighted average		1,358,415	1,353,382	1,245,786	1,334,099	1,328,192
- end of period		1,362,633	1,352,383	1,352,108	1,338,730	1,331,078
Dividend cover (times)		2.5	2.5	2.5	3.1	3.2
Dividend yield (%)		3.4	3.5	3.5	3.9	4.1
Earnings yield (%)		8.4	8.8	8.5	12	13.1
Price earnings ratio (times)		11.9	11.4	11.8	8.3	7.6
Price - to - book (times)		2.6	2.7	2.7	1.8	1.5
Share price (cents) - high		9,650	7,875	6,750	3,960	3,810
- low		6,850	5,750	3,686	2,650	2,595
- closing	21	9,450	7,581	6,580	3,918	3,015
Number of shares traded (.000)		1,014,873	841,835	892,633	908,179	673,703
Turnover in shares traded (%)		74.5	62.2	66.0	67.8	50.6
Market capitalization (Rm)	22	128,769	102,524	88,969	52,451	40,132
Share statistics per ordinary share (cents)						
Basic earnings (cents)	22	864.5	699.7	581.4	478.1	376.2
Headline earnings (cents)	20	837.4	702.3	570.3	470.7	396.3
Diluted EPS (cents)						
Dividend paid (cents)	25	320	267	231.5	151	124
Return on equity (%)		25.2	25.2	24.2	22.9	20.3
Cost to income ratio		53.5	56.1	57.5	56.3	57.4
Price earnings ratio						
Return on ordinary shareholders' equity (%)		25.2	25.2	24.2	22.9	20.3
Number of employees						
Revenue per employee ®						
Expenses per employee ®						
Headline earnings per employee ®						
Total assets (Rm)		968,991	765,690	625,537	540,566	393,353
PBITDA		19,463	14,474	10,200	8,946	7,467
Cash Generation		23,763	19,311	16,550	12,743	10,577
Audit fees		72	61	49	40	33
Profit for the year		10,551	8,753	7,244	6,026	4,841
Revenue (Rm)		129,911	107,657	99,831	95,840	89,192
CFROTA		2.01%	1.89%	1.63%	1.65%	1.90%
Cash to Total Assets Ratio		2.45%	2.52%	2.65%	2.36%	2.69%

10.5 *Appendix 5: Research Questions*

Building 4, Harrowdene Office Park
128 Western Service Road
Woodmead 2191
Gauteng

01 October 2009

Interview Respondent
All Banks, Practitioners and Analysts

Att: Respondent

Subject: Doctorate in Business Administration Research

Introduction

My name is Cleopas Sanangura, working for ABSA as Consultant: Corporate Asset Finance based in Johannesburg (ABSA head office).

I am currently doing a DBA (Doctorate in Business Administration) and the topic I am researching on is as follows: ***Behind the boardroom door. The effectiveness of board of directors in creating shareholder value and the effect of shareholder activism in financial service sector in emerging markets. Corporate Governance in South Africa and Zimbabwe.***

My Research Objectives

a. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial sector and to investigate factors that affect good corporate governance practices. The factors will be used to assess why investors prefer other portfolios and why they perform differently while operating in the same environment. Companies to be covered are Barclays – ABSA, Standard Bank, First Rand Bank, Nedbank, Standard Chartered Bank, Commercial Bank of Zimbabwe (CBZ) and Stanbic.

b. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency
c. To establish if training and accreditation of directors can improve corporate governance practice in the financial sector.

It is a requirement that I have to contact interviews and do some observations on how the board contacts itself in executing its duties. I therefore request your permission to interview the following board members listed below including yourself. As you are the CEO, you have been selected to participate in this research and assist me in developing new knowledge on director effectiveness in emerging markets in the financial sector in South Africa. I am interested in your personal experience, knowledge, observations and opinions in this field.

I want to make it perfectly clear from the onset that complete confidentiality is guaranteed and that anything you might say in the course of the interviews will remain anonymous. Your contribution may be quoted in the study, but will not be attributed to you if need be. I propose that I will be recording all the interviews, for the sole reason of having an accurate account for transcribing which I intend to do in the next few days. I will wipe off all the tapes as soon as I have transcribed them and in the meantime I will be keeping them in a secure place.

I have some open ended questions that I propose to ask, which I am sending together with this introductory letter. There are issues that you may wish to contribute to my research, which you can submit under general comments. If you require any clarification at any stage, please do not hesitate to call me. My contact details are as follows:

Cleopas Sanangura
Chief Executive Officer
Dawn Advisory Services Pty Ltd
Tel: **+27 86 722 7443**
Fax: **+27 86 538 3268**
Mobile: **+27 82 943 8700**
Email: **das@dawnadvisory.co.za**

Research Objectives

a. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial sector and to investigate factors that affect good corporate governance practices. These factors will be used to assess why investors prefer other counters than others and why they perform differently while operating in the same environment. Companies to be covered are Barclays – ABSA, Standard Bank, First Rand Bank, Nedbank, Standard Chartered Bank, Commercial Bank of Zimbabwe (CBZ) and Stanbic bank.

b. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency

c. To establish if training and accreditation of directors can improve corporate governance practice in the financial sector.

Questionnaires

The Organization and Shareholder Activism

1. Is there a unified articulated organizational purpose shared by owners, board members and managers?
2. What are the major laws and societal customs within which the board must act?
3. Do the policies, procedures and culture make the best use of the board's knowledge, skills and ability as a group?
4. What are the main causes of Corporate Governance failures in Emerging Markets as compared to developed markets?
5. What are the factors/issues that shareholders take into account when considering the existence and effectiveness of Corporate Governance?
6. What is the important corporate governance attributes that influence performance of directors in order to meet shareholder expectations?
7. You mentioned sustainable value creation strategies in the financial report. How do you measure them?
8. Do the values, norms and beliefs of the board support the best use of the board's capabilities? How do the group's values, norms and beliefs affect a director's willingness to use his/her capabilities?
9. What has been the participation of shareholder in creating value to the bank and how involved are they?

Environment

1. What makes the bank different from others?
2. Do policies, procedures and culture make the most of each individual director's knowledge, skills and abilities?
3. Is there sufficient trust on the board for the most to be made of director's capabilities?

4. Do relationships encourage the use of the board's talents by management?
5. Do directors understand how they can put their contacts to work for the bank?
6. If I were to appoint you CEO of another bank what impact will you make?
7. How has the regulatory framework affected performance of banks in the country?
8. Boards have been characterized as largely ceremonial bodies. What is you comment?
9. How do you manage conflict of interest as it relates to Agency theory and stewardship theory?
10. How has integrated reporting affected how you measure the bank's performance?

Directors

Fit	**Key questions**
Human capital/structural capital	Do the policies, procedures and culture make best use of the board's knowledge, skills and ability as a board? Do policies, procedures and culture make the most of each individual director's knowledge, skills and abilities?
Human capital/social capital	Is there sufficient trust on the board for the most to be made of directors' capabilities? Do relationships encourage the use of the board's talents by management? Do directors understand how they can put their contacts to work for the bank?

Human capital/cultural capital	Do the values, norms and beliefs of the board support the best use of the board's capabilities? How do the board's values, norms and beliefs affect a director's willingness to use his/her capabilities?
Social capital/structural capital	Do policies, procedures and culture build trust in the boardroom? • Between the board and managers? • Between the board and external organisations?
Social capital/cultural capital	Do the values, norms, beliefs of the board match those of society (Ubuntu)? Do the individuals share values, norms, beliefs? Do these match management's values, norms, beliefs?
Structural capital/cultural capital	Do policies, procedures, culture match societal expectations?

General discussions

1. How do NEDs creating shareholder value and does the bank need them?
2. What type of qualities do you consider when appointing an individual to the board?
3. Will training and accreditation of directors create value and impact on Corporate Governance in the financial service sector and how?

4. How is power distributed among board members?
5. How do you measure individual and collective board performance?

Auditors

1. How do auditors creating shareholder value?
2. Can the bank operate with external auditors? What value do they add to the bank and to shareholders?

Chiefs

1. How are Chiefs selected?
2. How do you select the Izinduna?
3. What are their responsibilities?
4. What is the role of the community in your governance structure?
5. How do you pay Izinduna and how do you determine their remuneration?

General Comments

1. Do the values, norms and beliefs of the board support the best use of the board's capabilities?
2. How do the group's values, norms and beliefs affect a director's willingness to use his/her capabilities?
3. Do policies, procedures and culture build trust in the boardroom between the board, managers and external stakeholders?
4. How does the Ubuntu concept affect board performance?
5. Do the values, norms, beliefs of the board match those of society?
6. Is the Ubuntu concept necessary tool for directors?
7. Do policies, procedures, culture match societal expectations?

10.6 *Appendix 6: Interviewee Profiles*

ABSA Group

1. **Dr D C Cronje, *Dcom – Non Executive Chairman***
   Dr Danie Cronje is 59 years old with a Doctorate in Commerce (Dcom) and he is the chairman of ABSA Group since 1987. He is also the chairman for Sage Group, ABSA Foundation, ABSA Group Retirement Fund, and director of Idion Technology Holdings Ltd. His executive career dates back to 1975 when he joined Volkskas, where he held various positions in the Merchant Bank division. He became Deputy CEO subsequently CEO of ABSA after the name change until 1997. Danie has 31 years' experience with ABSA.

2. **Dr S Booysen, *CA (SA), Dcom – Chief Executive Officer***
   Dr Steve Booysen is 42 years old with a Doctorate in Commerce and is Chartered Accountant. He is the CEO for ABSA Group since 2004. After completing his articles with Ernst and Young in 1983 he became a lecturer in accounting at the University of South Africa until 1988. He was appointed Senior Manager: Finance at TrustBank until 1994 when he was appointed General Manager: Group Finance at ABSA. He later joined ABSA Corporate and Merchant Bank where he rose to Deputy Operating Executive, the Group Executive Director before he was appointed Group CEO.

3. **J H Schindehutte, *Bcom (Hons), CA (SA), HDip Tax – CFO***
   Jacques is 46 years old and is the CFO for ABSA Group after joining the group in 1999 as Group Executive: Finance. He is responsible for Group Finance, office of the General Counsel, Group Economic Research, Investor Relations and Group Secretariat. He served his

articles with Ernst and Young before joining Portnet and Transnet until 1999.

4. **Dr D Baloyi,** ***PHD (International Education Development) – Independent NED***

   Danisa is 50 years old and she is an Independent board member of ABSA Group since 2004. She currently sits on 8 boards and she is an Executive Director of the National Black Business Caucus.

5. **A S Du Plessis,** ***Bcom, CA (SA), HDip Tax, AMP – Independent NED***

   Attie is 62 years old and has been an Independent director since 1992. He chairs the Group Audit, Group Risk, Credit, and Board Lending Committees. He is also Chairman for Gencor Ltd, Sanlam Ltd, KWV Group Ltd and various other companies besides being an Executive Director for Sankop Ltd.

6. **L W Maasdorp,** ***BA, Msc Economics – NED***

   Leslie is 39 years old appointed in 2004 as a non-executive director representing the interests of the BEE Company Batho Bonke consortium. He is Chairman of Trans Caledon Tunnel Authority, South Africa Weather Services and sit on the boards of Coega Development Corporation, Johannesburg Property Company and Yard Capital

7. **T M C Sexwale,** ***Certificate in Business Studies - NED***

   Tokyo is 53 years old appointed to the ABSA Group board in 2001 representing the BEE consortium Batho Bonke. He is the owner and Executive Chairman of Mvelaphanda Holdings Pty Ltd, Chairman of Northam Platinum Ltd, Trans Hex Group Ltd, Gold Fields Ltd, former member of the ANC National Executive Committee and Premier of Gauteng.

8. **Group Secretariat – W R Somerville, *ACIS, ACMA, Dip Corp Law***
William is 49 years old and is the Group Company Secretary since 1990.

FirstRand Group

10 T Ferreira *Bcom (Hons) B (B&A), MBA – Non Executive Chairman*

Gerrit is 59 years old and has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he was elected as executive chairman. When RMB Holdings was founded in 1987 he was appointed chairman, a position which he still holds. Following the formation of First Rand in 1998 he was appointed non-executive chairman. He is a member of the Council of the University of Stellenbosch.

Directorships

FirstRand – memberships Directors' affairs and governance committee Remuneration committee.

First Rand Bank Holdings – Chairman Glenrand MIB Momentum Group RMB Holdings – Chairman VenFin.

11 L Dippenaar *CA (SA), Mcom – Chief Executive Officer*

Lauritz is 58 years old and he graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent three years with the Industrial Development Corporation before becoming co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director. He was appointed managing director in 1988, which position he held until 1992 when RMB Holdings ("RMBH") acquired a controlling interest in Momentum Life Assurers, the fifth largest insurance company in South Africa at that rime. He was appointed as executive chairman of that company, a position he held until being appointed chief executive officer of First Rand in 1998.

Directorships

FirstRand – memberships Audit committee Executive committee – chairman

Discovery Holdings – Chairman First Rand Bank Holdings Momentum Group – Chairman OUTsurance – Chairman RMB Asset Management RMB Holdings.

12* P K Harris *MCom – Chief Executive Officer

Paul is 57 years old and has graduated from the University of Stellenbosch and joined the Industrial Development Corporation where he served for a number of years. He was a co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director of the bank. He spend four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 where he was appointed deputy managing director of RMB. In 1992 he took over as managing director and chief executive officer. He has been chief executive officer of FirstRand Bank Holdings since July 1999.

Directorship

FirstRand – membership's Executive committee

FirstRand Bank Holdings, Momentum Group, Remgro Limited, RMB Holdings.

13* K C Shubane *BA (Hons); MBA – Independent NED

Khehla is 51 years old and graduated at University of the Witwatersrand. Prior to this he was a student at the University of the North where his studies were terminated following his arrest for political activities, conviction and sentence which he served on Robben Island. Upon his released he was employed at Liberty Life for a short time. He served on various political organizations until joining the Centre for Policy Studies in 1988. He is an author and has co-authored several political publications and is a member of the board of the Centre for Policy Studies.

Directorship

FirstRand memberships – Directors' affairs and governance committee

FCB South African, Newhco, Nurcha, RMB Holding.

14 J P Burger *Bcom (Hons), CA (SA)*

Johan is 48 years old and he is the founding member of the bank. He has been with the bank since its incorporation as the CFO.

15* S E Nxasana Bcom, Bcompt *(Hons), CA (SA) – CEO FirstRand Banking Group

Sizwe is 49 years old, he started his career at Unilever. In 1989, he established Sizwe & Company, the first black owned audit practice in

Kwazulu Natal. In 1996, he became the founding partner of Nkonki Sizwe Ntsaluba, the first black owned national firm of accountants and was national Managing Partner until 1998 when he joined Telkom SA as Chief Executive Officer. He held this position until 2005.

His experience in the financial sector includes being a NED of NBS Boland Bank, DBSA from 1995 to 1998, and Chairman of Mesele-Hoskens Insurance Group from 1994 to 1996. He joined the board of FirstRand Bank Holdings in 2003 and was appointed CEO from 2006. During the same year he was appointed a NED of FirstRand.

Board membership: FirstRand Executive Committee, Zenex Trust

16 **N N Gwagwa** ***BA (Fort Hare); MTRP (Natal); MSc (cum laude) (London); PhD (London) – Independent NED***

Nolulamo is 47 years old. She worked as a town planner in the private, public and NGO sector between 1981 and 1986, whereafter she proceeded to further her studies. In 1992 she joined the University of Natal as a senior lecture in the Department of Town and Regional Planning. In 1995 she was appointed as a deputy director general in the national Department of Public Works, where she was responsible for the national public works programme and the transformation of the construction industry. From 1998 to 2003 she was the chief executive office of the Independent Development Trust. She is currently an independent development consultant.

Directorship

FirstRand – memberships Directors' affairs and governance committee; Financial sector charter and transformation monitoring committee.

ACSA, Development Bank of South Africa.

17 **S E N Sebotsa** ***LLB (Hons); LSE; MA (McGill); SFA – NED***

Sonja is 34 years old. Her studying areas were Law, Business and Economics. She started her career in investment banking at Deusche Morgan Grenfell Johannesburg in 1997 working on M & A transactions, privatizations and BEE deals. She left Deutsche Bank almost six years later, after having spent some time working in their London and Tokyo offices. Leaving Deutsche Bank as a Vice President in late 2002 she took up an executive position with the WDB Group where her role largely involves negotiating and executing BEE transactions on behalf of the WDB's sole shareholder, the WDB Trust.

Directorship

FirstRand – membership Directors' affairs and governance committee

Adcorp Holdings, Makalani Holdings, Paracon Holdings, Willis South Africa.

18 **M W King** ***CA (SA); FCA – Independent NED and Chairman of the King 11 Report***

He is 69 years old. He graduated at the University of Witwatersrand as a lawyer. He qualified as a chartered accountant with Deloittes. In 1961 he joined Union Acceptances and was deputy managing director from 1972 to 1974. He left to join Anglo American Corporation of SA, and was finance director from 1979 to 1997. He became executive deputy chairman in 1997, executive vice-chairman of Anglo American plc in 1999, and retired in May 2001. He served on the board of Barclays Bank DCO South Africa, whose name was changed in 1987 to First National Bank of Southern Africa.

Directorship

FirstRand – membership Audit committee – Chairman Directors' affairs and governance committee Remuneration committee. FirstRand Bank Holdings, African Rainbow Minerals, Sturrock and Robson Holdings, The Tongaat-Hulett Group

Nedbank Group

19 **Dr R J Khoza, BA (Hons) Psychology (UNIN), MA Markerting Management (University of Lancaster), EngD (University of Warwick), IPBM-IMD (Lausanne), PMD (Havard) – Non Executive Chairman**

Reuel is 58 years old, a businessman, a director of companies, was appointed to the Nedbank board in 2005. He is a Chairman of Aka Capital, Nedbank Group, Corobrik, NEPAD Business Foundation and Murray and Robberts Cementation. He is also a board member of Nampak Limited, Protea Hospitality Group, Old Mutual Plc and Gold Reef Resorts Limited. Reuel is also a president of the Institute of Directors and in this capacity served on the King 11 Committee on Corporate Governance. He is founder of the Black Management Forum and former Chairman of Eskom.

20 M L Ndlovu, Dip LR (Unisa), MAP (Wits), EDP (North West), AMP (Havard) – NED Vice Chairman

Maduke is 56 years old, was appointed to the Nedbank board in 1994. He is a director of 20 companies besides being a member of four committees.

21 T A Boardman, Bcom, CA(SA) CEO

Thomas is 58 years old, was appointed in 2002 to turnaround the bank after its near collapse. He was previously CEO and executive director of BOE Limited and before that he was a director of Boardmans and Sam Newman Limited and BOE International Holdings Limited and Northwind Investments. He is a NED of Mutual and Federal Insurance Company Limited a subsidiary of Nedbank and The Banking Association of South Africa.

22 M Brown, Bcom (Hons), CA(SA) Financial Director

Mike is 41 years old, after qualifying as a CA at Deloitte and Touche he joined NBS Treasury department in 1993. He then moved to BOE corporate as General Manager and was later appointed MD in 1999. After the merger of Nedbank and BOE in 2002 he was appointed MD of Property and Asset Finance.

In June 2004 Mike was appointed FD and executive director of Nedbank Group. His area of responsibility include Asset and Liability Management, Group capital management, Tax, Financial reporting, and investor relations.

23 T C P Chikane, Bcom (Hons), CA(SA) Independent NED

Thenjiwe is 42 years old, was appointed to the board in 2006 and she is the CEO of MGO Consulting. She was previously Head of the Gauteng Department of Finance and Economic Affairs and she is a board member of Development Bank of Southern Africa, PetroSA and State Information Technology Agency

24 Prof B De Lacy Figaji, Bsc (Eng) Dip Tertiary Edu Med, DEd (Coventry University), DLitt (hc) (California)

Prof Brian is 63 years old, was appointed to the board in 2002. Brian is the Chairman of HHO Africa Pty Ltd, I & J Limited, MARIB Holdings. He is a board member of PetroSA, Cape Lime Pty Limited, ASSET (Educational Trust) (Trustee), Development Bank of Southern Africa and a former Vice – Chancellor of the Peninsula Technikon.

25 G T Serobe, Bcom (Unitra), MBA (Rutgers)

Gloria is 48 years old, was appointed to the board in 2002 and she is the CEO of Wipcapital. She is the founder and executive director of WIPHOLD. She was previously the executive director, finance at Transnet and serves on the boards including JSE Limited, FSC Council, Old Mutual Life Assurance Company South Africa Limited.

Standard Bank Group

26 **Cooper,** ***CA (SA) – Non Executive Chairman***

Derek is 66 years old and was appointed Chairman since 1993. He is also Chairman of Standard Bank Africa, Liberty Group and Liberty

Holdings, Standard Bank Plc and president of Business Leadership South Africa.

27 **J Maree, *Bcom, MA (Oxford) PMD (Harvard) – Chief Executive Officer***

Jacko is 51 years old and was appointed CEO in 1997. He is a director of Standard Bank, Liberty Group, Liberty Holdings, Stanbic Africa Holdings, SBIC Investments SA, Standard International SA and Chairman of Standard Bank Plc.

28 **S Macozoma, *BA, (Unisa) BA (Hons) (Boston) - NED***

Saki is 49 years old, a businessman and he is a board member of 12 companies. He is a board member of many companies including Standard Bank Group, The Standard Bank of SA, Liberty Group, Liberty Holdings, Deputy Chairman of Safika Holdings, Chairman of Andisa Capital, Cahirman of Business Trust, Chairman Lliso Consulting, Chairman of Stalib, Tutuwa Strategic Holdings 2 and VW South Africa. He sits on different committees within the companies he is a board member.

29 **C Ramaphosa, *BProc (Unisa) - NED***

Cyril is 54 years old, a businessman and a board member of 12 companies. He is a board member of Standard Bank Group, Standard Bank South Africa, Alexander Forbes, Macsteel Holdings, Mondi South Africa, MTN Group (Chairman), MTN International (Chairman), SAB Miller, SASRIA, Shanduka Holdings (Chairman), The Bidvest Group (Chairman) and Tutuwa Strategic Holdings 1

30 Dr C Strauss, BA, PHD (Rhodes), MS(Cornell), AMP (Havard), FIBSA, DEcon (hc) (Rhodes, Dsc (hc) (Pretoria)

Conrad is 71 years old and was appointed to the board of Standard Bank Group in 1984. He is a board member of Standard Bank Group, Standard Bank SA, African Oxygen and Hans Merensky Holdings.

31 K Moroka, BProc, (Uni of the North), LLB (Wits)

Kgomotso is 52 years old and was appointed to the board of Standard Bank Group in 2003. She is a director of Standard Bank Group, Standard Bank SA, Electronic Media Network (M-Net), Gobodo Forensic and Investigative Accounting (Chairperson) New Seasons Investments Holdings and South African Breweries.

32 S Ridley, Bcom (Natal), CA(SA), AMP (Oxford)

Simon is 51 years old and he joined the group in 1999 and was appointed Financial Director in 2002.

Other Corporate Governance Practitioners

33 Advocate J Myburgh

John is 52 years old and trained as a lawyer and was admitted to the bench 32 years ago. He chairs a lot of boards and is a member of the SARB advisory board and he is a lecturer of law.

34 T Dixon

Tony is 53 years old and he is an executive director of the IOD. He is an advisor and sits on different boards. Tony is also a lecture of Corporate Governance

35 Dr G Gono

Gono started his career as a tea boy. After graduating with a diploma with the Institute of Chartered Secretaries and administrators, he joined CBZ until he became the CEO. He graduated with an MBA before being appointed governor.

36 T Mboweni

Tito Mboweni is the eighth Governor of the South African Reserve Bank. He succeeded Dr. Christian Lodewyk Stals on 8 August 1999. The youngest of three children, Tito Mboweni was born on 16 March 1959. He grew up in Tzaneen in Limpopo, he graduated with an Msc in Economics.

37 RBZ Registrar of Banks

38 SARB Registrar of Banks

10.7 *Appendix 7: Conceptual Framework*

Mechanisms | **Triggers** | **Outcome** | **Corporate performance**

External attributes

- Ownership structure
- Development of strategies
- Evaluation Committee
- Board affairs Committee
- Government policies
- Independent Auditors
- Independent Directors
- Independent Consultancy
- Other stakeholders

External influence

- Shareholder activism
- Regulatory framework
- PESTI
- Power distribution

Internal attributes

- Skills mix
- Knowledge and experience
- Remuneration
- Motivation
- Participation
- Management interest
- CEO influence
- Power distribution
- Internal systems
- Employees

Internal influence

- Internal Audit
- Audit Committee
- Board composition
- Financial control
- NED
- Mission
- Vision
- Strategy

Board continuous development

- Qualification
- Experience
- Remuneration
- Motivation
- Teamwork
- CSR issues
- Culture

Nature of the Board

- Gender composition
- Stewardship Theory
- Agency Theory
- Knowledge and experience
- Conflict of interest
- Ethical issues
- Communities

Board Effectiveness

C.G principles

❖ *Fairness*
❖ *Transparency*
❖ *Accountability*
❖ *Responsibility*

(Document 1: 5)

❖ **Corporate financial performance**
❖ **Shareholder value growth**
❖ **Bank survival and growth**
❖ **CFROTA growth**

Board Effectiveness Model: Adopted from Document 2: 25

Nottingham Business School

In Association with Nottingham College of Business, Law and Social Sciences

Doctorate of Business Administration

Document Five

The thesis: Corporate Governance in emerging markets; a study of South African and Zimbabwean Banks

"Document five submitted in part fulfilment of the requirements of The Nottingham Trent University for the degree of Doctorate of Business Administration"

Key Words: CG, Shareholder value, Bank performance, Board effectiveness, independence, transparency, IDs, NEDs, Auditors, Stakeholders, Audit Committees, Value creation model

Authored by **Cleopas Sanangura**

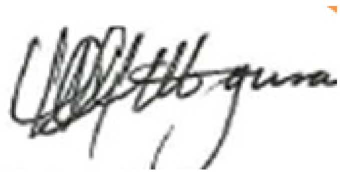
Student Number: **YA008250**

Date: June 2010

Word count: 33 670

Certificate of original authorship

I certify that the substance of this thesis has not been submitted for any other degree to date, nor is it currently being submitted for any other degree. I also certify that I have acknowledged all sources used and assistance received in preparing this thesis.



Cleopas Sanangura
Researcher

Dedication

I dedicate this thesis to my wife Rejoice, our beautiful angels, Kudzai Blessing, Chipo Mitchell, Late Rutendo Lisa, my family (parents, brothers and sisters) and friends. They have supported me without dissent for the full four years of my unrelenting daily study programme. Their love and encouragement, given without question, has enabled me to complete this work on time and within budget, for which I thank them sincerely with all my heart may the almighty bless you.

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time to discuss their courses with me and helped in completing every part of this research.

List of Acronyms and Abbreviations

BEE	Black Economic Empowerment
CFROTA	Cash Flow Return on Total Assets
DTI	Department of Trade and Industry
EDs	Executive Directors
ELCC	External Loans Coordinating Committee
ESAP	Economic Structural Adjustment Programme
EV	Enterprise Value
FNB	First National Bank
JSE	Johannesburg Stock Exchange
IDs	Independent Directors
LSE	London Stock Exchange
MBA	Master in Business Administration
NEDs	Non-Executive Directors
PESTI	Political Economic Socio-cultural Technological and International
EBITDA	Earnings before Interest Tax Depreciation and Amortization
P/E	Price earnings ratio
R&D	Research and Development
ROCE	Return on Capital Employed
SA	South Africa
SEC	Stock Exchange Commission
SOX	Sarbox (Sarbanes-Oxley Act: also known as Public Company Accounting Reform and Investor Protection Act of (2002)
TSE	Toronto Stock Exchange
UK	United Kingdom
US	United States
ZSE	Zimbabwe Stock Exchange

Definitions

Adverse selection: a situation where sellers have information that buyers do not (or vice versa) about aspect of product quality or an individual

Board–management social capital: is the store of goodwill that exists between the members of the board and individual senior managers, most notably the CEO

Corporate Governance: the rules and incentives by which the board of a bank is directed and controlled to maximize the profitability and long term shareholder value while taking into account the interests of other legitimate stakeholders (Stone *et al* 1998)

Cronbach coefficient alpha is used to measure the mean reliability estimates for all possible ways of splitting the set whilst keeping it intact

Cultural Capital: is a very general theory, in the sense that it attempts to construct explanations for things like differential educational achievement in a way that combines a wide range of differing influences

Extra-corporate social capital: relates to a relationship between corporate actors (i.e. board members and external parties who can supply resources such as finance, information, key inputs, etc.), but the nature and extent of resources that the external party can supply

Heuristic process: helping to learn, guiding in investigation or a science, philosophy, using or obtained by exploration of possibilities rather than by following set rules

Intellectual capital: refers to all resources that determine the value and the competitiveness of an enterprise

Intra-board social capital: is the "store" of goodwill that exists between board members and will determine the productivity of exchanges between board members

Logistic regression: is model used for prediction of the probability of occurrence of an event by fitting data to a logistic curve

Moral Hazard: a special case of information asymmetry, a situation in which one party in a transaction has more information than another

Multi-item scale: is a measurement scale that gathers opinions about an object on a number of dimensions and the data can be collated to produce a combined rating

Paradigm: is an overall conceptual framework within which a researcher may study (Guba and Lincolin 1994: 105, Perry *et al* 1999:16)

Parallel-form is where participants replying to the same construct have a high correlation

Praxis: the practice of a field of study, as opposed to the theory

Split-half is where participants are divided into two equal camps and estimate correlations between the camps is done

Social capital: refers to the implicit and tangible set of resources available to the board by virtue of social relationships or an economic idea that refers to the connections between individuals and entities that can be economically valuable

Structural capital: Competitive intelligence, formulas, information systems, patents, policies, processes, etc., that result from the products or systems the firm has created over time

Regression analysis: is a statistical tool for the investigation of relationships between variables. It includes any techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables.

Test-retest is where the test is repeated and found to be consistent

Ubuntu: is the African value system, which emphasizes the collective over the individual good, the principles of mutual interdependence and co-existence, the spirit of humanity, based on the premise that the individual is entitled to respect because of his cordial coexistence with others, a hierarchical political ideology, but one based on an inclusive system of consultation at various levels.

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1 Background Information

Corporate governance has been an integral part of business practices, beginning with the creation of corporate structures and the distinction between owners and managers. The *"agency problem"* relationship between owners, and directors who represent the owners began to become formalized in economic literature in the 1930s. In more recent years, corporate governance has established a greater standalone identity as a field of study and as an area of risk. The wide wake of damage and disenfranchisement caused by recent corporate failures has made corporate governance not just a concern for investors, Governments, financial markets, but an issue of political economy on a global basis.

Corporate governance became a matter of current public debate, following the controversy surrounding the collapse and financial distress of many markets including (China 2002), (Hong Kong 2002), (Russia 2003), (UK 1991), (SA 1997/8), (Zimbabwe 2005) (US, Wall Street Crash 1929 and 2002), (the current global financial crisis 2008/9: Subprime and the collapse of Lehman Brothers) and the resultant impact on shareholder value. The debate revolves around matters such as agency relationships, disclosure of executive remuneration, independence, transparency, relevance of audit, board composition, financial control and reporting, directors' fiduciary duties and shareholder activism. Recent reports in the media and markets, (www.businessday.co.za, www.fingaz.co.zw, www.theindependent.co.zw www.thestar.co.za and www.mail&guardian.co.za) have cited ineffective corporate governance, conflict of interest and poor internal controls as a major cause of corporate failures.

The crisis reflects a breakdown in the fundamental bargain on which business has been operated since ownership first diverged from management. The agency relationship has worked well in some corporations but failure has become fashionable. The concepts that have underpinned the discussion will provide the tool kit to address issues pertaining to corporate governance and competitive advantage in emerging markets in fulfilling the conduct of the research process, research objectives in confirming the conceptual framework.

Regulatory bodies have responded with the passing into law of regulations, such as the Sarbanes-Oxley Act (2002) in the USA, and recommendations that the companies subscribe to best practice and principles detailed in various reports, including the King Reports I (1994), II (2002) and III (2009) on corporate governance in South Africa and the combined code of corporate governance in the UK. The reputation and governance of a corporation translate into a “governance premium” argued (Millson and Ward 2004), (consulting firm McKinney & company 2002), corporate governance can be measured and translated into higher price/earnings multiples and other improved metrics (Howell and Hibbard 2002). A report by OECD (1999: 22) confirms this, concluding the adherence to practices of good corporate governance will help to improve the confidence of investors, may reduce the cost of capital and may induce more stable sources of capital for example the acquisition of ABSA by Barclays, acquired at a multiple of 8, which was 2 basis points above actual multiple (ABSA 2004 financial statements).

Although a host of theory driven rationales suggest a relationship between board of directors, size and firm performance, the literature provides no consensus about the direction of that relationship (Dalton *et al* 1999: 674). Board size is another issue for which there is no apparent consensus because they represent the bulk of the empirical studies that have been conducted in the area of Corporate Governance (Johnson *et al* 1996: 431). Both researchers and practitioners have focused largely on the conflicts of interest between managers and shareholders and on the conclusion that more independent oversight of management is better than less. Independent governance structures are both prescribed in agency theory and sought by shareholder activists as reflected in the results of scholarly research (Schliefer and Vishny 1997, Daily et al 2003).

Nearly two decades of research find little evidence that board independence enhances board effectiveness, studies have, however found a negative effect (Westphal 2002: 6). The most important predictor of director effectiveness is not independence, but strategic experience that matches the company's needs. Evidence that director experience is critical to board effectiveness is relatively new argued (Westphal 2002: 6). However, evidence that board independence has neutral to negative effects on board effectiveness is not (Leblanc 2004: 436). Corporate governance can be an important competitive tool used to maximise a company's performance, increase a company's potential to encourage capital investment and positively influence a country's ability to attract foreign investment argued (Naidoo 2002: 1). It remains an essential ingredient for nurturing trust and business confidence. The King II Report (2002) is premised on the philosophy that governance in any context must reflect the value system of the society in which it operates (Ubuntu), which means there is no universally applicable corporate governance model than to just base on accountability, responsibility, and transparency when assessing the effectiveness of directors (Kwamwangamulu & Nkonko, 1999:27).

The King II Report (2002) (now super-ceded by the King 3 Report 2009) incorporates an African value system, which emphasises the collective over the individual good, the principles of mutual interdependence and co-existence, the spirit of humanity, *(ubuntu)* based on the premise that the individual is entitled to respect because of his cordial coexistence with others, a hierarchical political ideology, but one based on an inclusive system of consultation at various levels. Integrating this approach into corporate governance implies a shift in organisational emphasis from a decision making hierarchy to one that is more consultative and consensus based. Ubuntu value system is against corruption and unethical conduct of both directors and community leaders.

The former Minister of Finance of SA in his speech argued that, "in the same way as man was charged with the responsibility to act as the guardian of the planet for future generations, directors and managers are tasked with preserving the growing value, not for themselves but for stakeholders of the future (Ubuntu ...)," argued (Manuel 2002: 1). The crisis of American and British corporate responsibility is not "moral cancer" (Patterson 2000), instead, it is something more practical and amenable to treatment argued (Martin 2002).

1.1 Thesis focus

Since 1994 (that is from the time SA became an independent state) 12 banks failed in SA and 8 in Zimbabwe. BCCI was operating in both countries (Document 2: Appendix 1). The impact of a failure of a bank to any economy is huge as evidenced by the failure of Lehman Brothers in 2009. From the beginning of the 20th century, studies of business structures and management procedures were carried out and business managers increased their knowledge and understanding of how to achieve results beneficial to both shareholders (owners) and other stakeholders. The modern industrial capitalist system has developed with significant advances from that time, developing organisational structure, management skill and culture systems within enterprises (Daft, 1997).

Banks are controlled by boards of directors who represent the interests of all stakeholders. Banks perform differently while operating in the same macro and micro economic environment. The behaviour, association, independency, experience and skills of board members seem to determine the future of any organization. The focus of this study is therefore to understand what makes boards effective or ineffective resulting in bank success or failures. The study will provide an analysis of the factors that contribute to the effectiveness or ineffectiveness of different bank boards and how to measure the two.

1.2 Corporate Governance Developments

First to explore the structural and strategic implications of the separation of ownership and control were Berle and Means (1932) stated (Clarke 2004: 154). The separation of ownership and control leaves shareholders with little or no control over the actions of a company's managers argued (Berle and Means, 1932: 8). In response, shareholders attempt to protect their investment by using a variety of control mechanisms, (Targett, 2002; Shleifer and Vishny, 1997; Jensen and Meckling, 1976). They wrote in the preface of *The Modern Corporation and Private Property* that "It was apparent to any thoughtful observer that the American corporation had ceased to be a private business device and had become an institution" stated (Clarke 2004: 155).

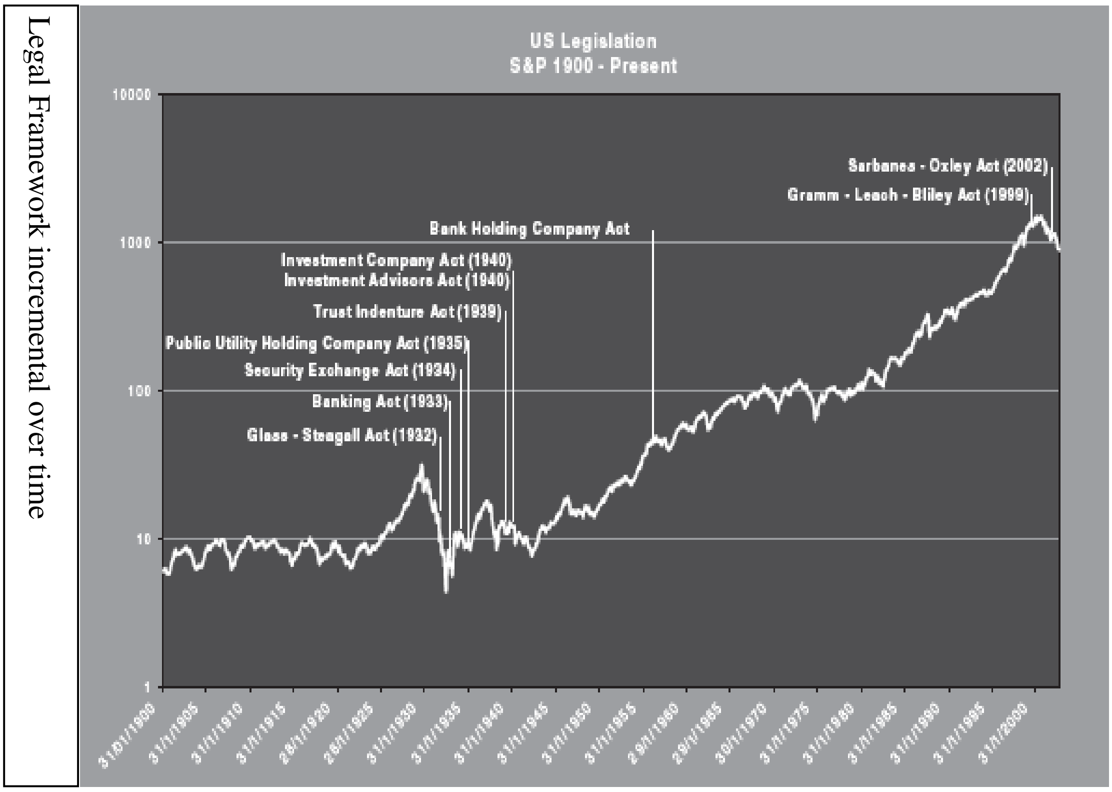


Figure 1.1. Adapted from (Clarke 2004: 155): Regulation in the United States

This discovery was after the corporate scandals in the US in 1929 called the US Wall Street Crash , which resulted in the first corporate governance legislation called Glass – Steagall Act (1932) (figure 1.1) resulting in the development of more legislation and recently the Sarbanes – Oxley Act (2002) after the collapse of WorldCom and Enron. The first report in the UK was the Cadbury Report (1992), (Document 2: 8 figure 1) followed by a few others as per figure 1.1 and 1.3 including the King 1, 2, and 3 Reports in Africa. Corporate governance literature has since grown up to date but these have been reactive to scandals hence not adding value to shareholders argued (King 2009).

South Africa developed its own compliance framework, [The King I Report (1994), King 2 Report (2002 and King 3 Report (2009)] in order to force compliance in corporate organizations by making the requirements of the (King Reports (1994, 2002 and 2009) compulsory to all organizations listed on the JSE. Zimbabwe also adopted the King II Report although the country is being affected by poor governance. A lot of research has been done in both countries in different sectors including (OCED 2004) in Zimbabwe and (Myburgh 2003*)* in the banking sector in South Africa.

1.3 Gaps in Corporate Governance

Recent accounting scandals (Fidentia, AIG, Fannie Mae, and Lehman Brothers) are the product of multiple failures of auditing, corporate governance, accounting, risk management and of the market. In discussing any factors that have led to failure, this research provides insights on regulatory inadequacies that contributed to these problems. At the centre is human failure – in particular greed and weakness of internal controls. Reforms in progress are briefly examined, with the caveat that no reforms will ever fully cater for human weakness.

Corporate governance refers to the system by which companies are directed and controlled. It can also be described as the balance of power reflecting the rights of owners, managers, lenders and other stakeholders (employees, government, etc.) argued (Prof. Brennan 2002: 1). When that balance of power is inappropriate – for example, where there is excessive dominance by one individual such as the chief executive or company chairman – governance may be hampered and problems may emerge. Separation of ownership and control of companies also gives rise to information asymmetry between different stakeholders on the one hand and company management on the other.

Financial reporting bridges that information gap yet it also creates corporate governance gaps through lack of transparency.

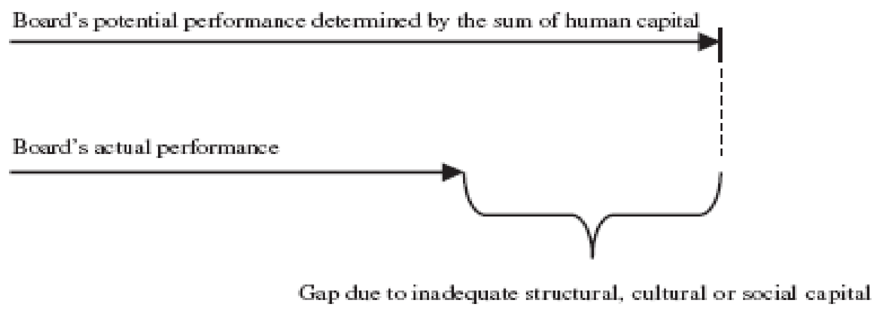


Figure 1-2: Gap Analysis in Corporate Governance: Adapted from (Nicholson and Kiel 2004: 451)

The longer arrow signifies that a board's potential is dictated by the human capital of its members working together under optimal conditions – the level of knowledge, skills and experience that the board can bring to bear if it were to function perfectly. The second arrow (shorter one) represents the performance of a hypothetical board. As illustrated, a board's actual performance will always be less than its potential performance. It is the other three sub-domains of intellectual capital – social capital, cultural capital and structural capital – that will determine the size of the performance gap.

The value of a bank is made of physical, financial and intangible assets, of which within these assets, directors utilize these resources for the growth of the bank. Social networks that include people who trust and assist each other can be a powerful asset. These relationships between individuals and firms can lead to a state in which each will think of the other when something needs to be done. Along with economic capital, social capital is a valuable mechanism in economic growth. The integration of intellectual, social, cultural and structural capital are tools boards of the banks under review utilize in line with the requirements of Ubuntu. The success of a bank relies on these forms of capital. Effective utilization of these resources results on the effectiveness of the board.

Since board members can add value to the firm by providing access to scarce resources such as information (Baysinger and Zardkoohi, 1986), capital (Mizruchi and Stearns, 1988), power (Scott, 1991) and industry contacts (Pfeffer, 1972), the second component of a board's intellectual capital is its *social capital*. Social capital refers to the implicit and tangible set of resources available to the board by virtue of social relationships (Gabbay and Leenders, 1999: 3), which creates value through Government, friendship, family, cultural and business networks.

To determine a board's social capital we need to understand the key relationships held by board members, the nature of these relationships (e.g. is there a high degree of trust?) and the resources that are available as a result of these relationships. Since the level of analysis is the board, there are four types of social capital in every board residing both within and outside the company.

1. *There is intra-board social capital:* This capital is the "store" of goodwill that exists between board members and will determine the productivity of exchanges between board members.
2. *Board–management social capital:* As with the intra-board social capital, this is the store of goodwill that exists between the members of the board and individual senior managers, most notably the CEO. The level of capital in this relationship will determine the effectiveness of exchanges between the board and management.

3. *Extra-corporate social capital:* This element of social capital is more complex than the other two because not only does it relate to a relationship between corporate actors (i.e. board members and external parties who can supply resources such as finance, information, key inputs, etc.), but the nature and extent of resources that the external party can supply. In a government corporation, for example, social capital may involve the information a director can garner from his or her contacts within a relevant bank department. In this example it is both the nature of the relationship between the parties (i.e. the director and the employee) and the attractiveness of the resource (in this case the information that can be gathered legally and ethically) that is important.
4. *Structural capital or the board's explicit and implicit codified knowledge (Bontis, 1998: 65):* Structural capital includes the various procedures, policies, routines, processes and methods the board has developed for the success of the bank. This structural capital can be codified and/or tacit and can be broadly categorised as a routine, a policy or element of board culture. The first categorisation of structural capital, routines, includes mechanical aspects of the governance function such as how the board papers are developed, how the agenda is compiled, how minutes are taken and distributed, and so on. These routines can be either explicit (i.e. documented) or implicit (i.e. undocumented, but a known expectation).

The second categorisation is board policies. Board policies are concise statements regarding the board's expectations with respect to specific issues ranging from behavioural/ethical expectations to more routine matters. These policies are generally recorded in either the minutes of the meeting when the policy is passed or consolidated into a board charter or policy manual argued (Nicholson and Kiel 2004: 451). Consequently, board policies tend to be explicit.

The final component of the board's intellectual capital is its *cultural capital* or the resources captured through social identification with the values, norms and rules sanctioned by the dominant institutions (Lin, 2001: 43). Board culture is a term used to describe the underlying values, beliefs and norms of the board (Schein, 1992). This will tend to be implicit and govern "the way we do things around here" (Deal and Kennedy, 1988,: 4). Together, the routines, policies and culture of the board set out a shared set of structures that can minimise (or conversely exacerbate) the processes of the board. In the case of governance, values would include expectations of transparency and honesty. It is subtly different from social capital in two ways.

First, cultural capital is captured by virtue of social identification (i.e. the identities or social categories by which people define themselves, for example gender, qualification or occupation (Tajfel, 1981)), not of relationships (although in certain circumstances there will be an overlap of the two). Second, cultural capital deals with the degree to which board members share norms, values and rules within the operating environment, not each other (as in board culture). The board's "embeddedness" in the predominant culture can allow it access to resources to impact the transformation process. For instance, individual board members' reputation for honesty can allow them access to sensitive information even where they do not share a direct relationship with the person who is providing the information (which, by definition, is a requirement of social capital).

Boards can therefore be conceptualised as a set of five components – the human, social and cultural capital of individual directors and the social and structural capital of the board as a whole. These are therefore linked to how each bank can perform as these are resources which have to be exploited for the benefit of all stakeholders. The value of the proposed framework, however, does not lie so much in identifying these various components stated (Nicholson and Kiel 2004: 452). Rather, it lies in identifying the nature of the interaction between them, the dynamics and relationships between the various components that result in the functioning of the board.

1.4 Ethical Issues and Scene Setting

The effectiveness of boards of directors (or lack thereof) has become a global concern. Corporate collapses, fraud cases, shareholder suits or questionable strategic decisions are attracting attention to the top decision making body of the corporation, (the board of directors) argued (Heracleous 2001: 165). In an attempt to raise the standards of corporate governance process, "codes of best practices" have been drawn up by several countries, global institutions and institutional investor organizations in order to set some discipline in the contact of directors.

The concept of "corporate governance" as a distinct field within corporate or company law is relatively new. SA, Zimbabwe and other countries have generally not developed single unitary bodies of law to address corporate governance, but rather corporate governance practices have emerged from overlapping concerns arising under corporate and securities laws, regulatory and administrative concerns of market institutions such as securities exchange. Only recently have regulators, academics and practitioners begun to pay attention to the adequacy of the regulatory environment in promoting effective corporate governance practice argued (Milbourne 2004: 165).

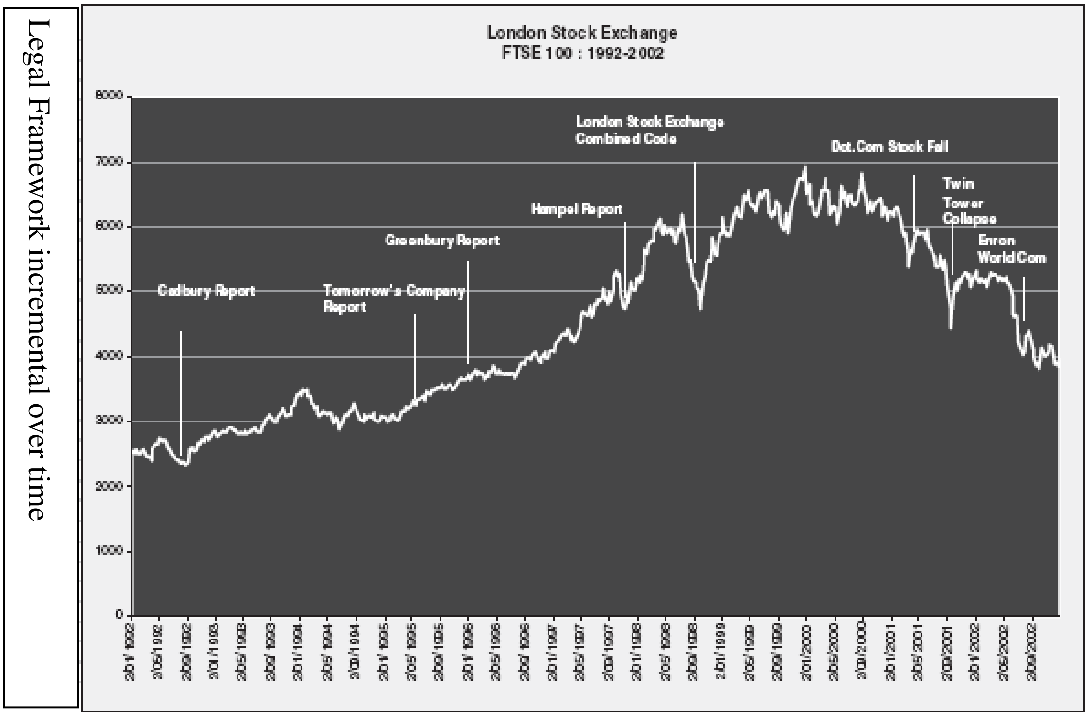


Figure 1-3 Adapted from Clarke (2004: 157): Regulation in the UK

A lot of effort has been put in by different institutions as indicated in Figure 1.1: and 1.3 above in trying to instil discipline and ethical conduct in the behaviour of directors and shareholders. The deviation of ownership and control rights has resulted in corporate governance crisis being cyclical as each code tried to address certain problems and yet more problems will continue to surface argued (Claessens *et al* 2000).

1.5 Chapter by chapter review

Chapter 1 gives an overview of the corporate governance issues affecting South Africa and Zimbabwe and identified the gaps that exist in the banks. Strategic and research questions will be discussed in section two of this document together with a summary of all the previous documents. The theory of corporate performance and director effectiveness will be summarized in order to understand how conflict of interest, stewardship, independence and transparency affect directors in their role and their effectiveness.

A critical literature review and a conceptual framework will be discussed in section 3, which will result in the research methods being analysed in section 4. The findings and analysis thereof will be done in section 5, which will result in section 6, which will suggest some policy changes in trying to solve the corporate governance paradox. Research integration will be the second last chapter, which will result in conclusion in section 9.

1.6 Chapter Summary

An effective board is one that can successfully execute the role set required of it argued (Nicholson and Kiel 2004). Therefore a sophisticated understanding of roles, independence and the interplay between the roles and the bank's environment is central to any assessment of board effectiveness.

Board effectiveness is affected by certain cultural issues discussed on page 20, agency dilemmas and association matrix (document 3: Diagram 6.1: 54). The corporate governance crisis discussed in document 2 is as a result of these issues and the legal framework has been trying to cope with the changes. The research questions will assist in trying to formulate strategies in order to find solutions to these dilemmas.

2 Research Map

In the previous documents comprising this DBA, the author sought evidence from qualitative and quantitative studies for heuristic processes (helping to learn or guiding in investigation) in the ways, in which information was sought, evaluated and used (Documents 1, 2, 3 and 4). Document 1 introduced the research proposal, which defined the definition, rules, and principles of corporate governance, how they affect the financial sector in SA and Zimbabwe. The origins and developments of this research started with Berle and Means (1932) who were the first to explore the structural and strategic implications of the separation of ownership and control. This has left shareholders with little or no control over the actions of a company's managers argued (Berle and Means 1932: 8). In response, shareholders attempt to protect their investment by using a variety of control mechanisms, (Targett, 2002; Shleifer and Vishny, *et al* 1997; Jensen and Meckling, 1976). "It was apparent to any thoughtful observer that the American corporation had ceased to be a private business device and had become an institution" stated (Clarke 2004: 155).

Critical literature review was the theme of document 2, which analysed the contributions by different researchers, who introduced different theories and themes like agency, stewardship, stakeholder theories and shareholder activism. An analysis of different countries was done in order to compare how different markets are affected by legal framework, separation of ownership, owner managed firms, effectiveness of the board, independence and transparency. It was noted that evolution of corporate governance in USA, Europe and Asia had a positive impact (transfer of knowledge) on South Africa and Zimbabwe as these countries followed the same trend of events. Most corporates in SA and Zimbabwe have listings on the JSE, LSE, NYSE, HKSE and TSE affecting how best practice issues are addressed.

The collapse of most of the US (The Wall Street Crash 1929), UK (The Great Depression 1987-1991) and (SA financial crisis 1998) companies had negative impact to SA and Zimbabwe as they had subsidiaries operating in these countries for example BCCI affecting the liquidity of these countries, which resulted in the development of a conceptual framework (document 2: 25).

Most of the research to date focused on roles and duties of directors, while document 3 focused on the effectiveness and independence of the board and auditors. Corporate failures continued to happen yet there are corporate governance structures that put reliance on IDs, NEDs and auditors. It focuses on the relationship between independence and transparency of directors and auditors in executing their fiduciary duties. The proposition was that transparency can be increased and information asymmetry reduced, if NEDs, IDs and Auditors are independent. Independence is meant that they do not have any conflict of interest with any of the stakeholders concerned in the financial sector.

Document 4 drilled down on the quantitative factors that affect board effectiveness and provided the evidence from the actual performance of banks both qualitatively and quantitatively. Document 4 produced a ranking using quantitative data from the financial statements of all banks over five years using Muth and Donaldson's (1998: 5 - 28) theory. The results were almost similar to the ranking in document 3, while document 5 will use a new tool (CFROTA) in order to try and justify the findings of document 3 and 4. Document 4's ranking will be compared to this document's findings.

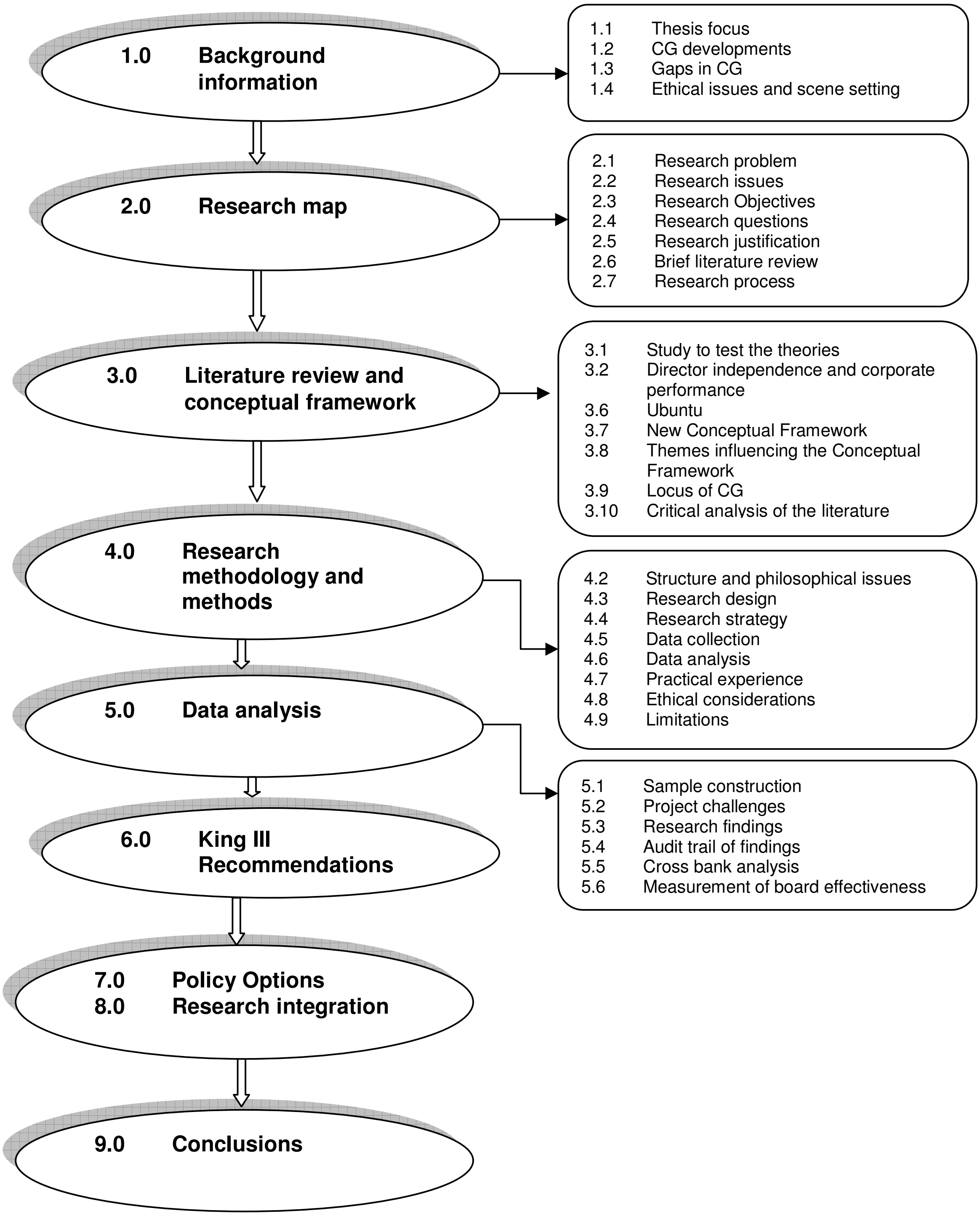


Figure 2-1: Developed for this research - Research map

The central theme for the investigations performed in this thesis, concerns an exploration in the ways that boards of directors function and how they are affected by different triggers. Independency, transparency, behaviour, skills and experience are critical components of this research as the researcher tries to find out how these themes affect the effectiveness of the board.

Document five will focus on understanding what makes boards effective or ineffective resulting in bank success or failures. Existing literature will be used to assist the researcher to understand the gaps that still exist in the governance literature as well as on the performance of directors. Figure 2.1 provides the road map and guideline to this study.

2.1 Research problem

Empirical research [McNulty and Pettigrew (1996), Dalton et al (1998), Cornforth (2001), Kazanjian (2000)] confirms that the relationship between structural independence – for example the separation of chair and CEO, having a majority of outside, supposedly independent directors, the size of the board – and corporate financial performance, is mixed at best. This is hardly surprising. To be self-critical of the academic work done in this area, trying to distil a relationship between governance and performance – from outside of a boardroom – is analogous to trying to find out what makes a sports team effective by sitting in a cafeteria reading the sports pages, without entering the arenas or locker-rooms or interviewing the game's great teams and players. A board, in its simplest terms, is a decision-making body. How, when and why boards act, or fail to act, is best determined by observing boards in action, in real time, and by engaging in depth interviews and intense dialogue with directors themselves – *'the actors'* (Leblanc 2004: 437).

Essentially the thesis examines the effectiveness of the board of directors in executing their fiduciary duties and how they are affected by independence. What happens behind the boardroom door (during board meetings) will be an area of interest as the researcher attempt to link corporate governance with corporate financial performance and the relationship between board behaviour and firm performance, as the literature provides no consensus about the direction of that relationship (Dalton *et al* 1999: 674). There are key questions in the field that are yet unanswered or not addressed with sufficient particularity as to form the bedrock of drawing a quantitative association – or possibly a causal relationship – between boards and corporate financial performance. These questions tend to focus, not surprisingly, on the inner workings of boards – how things happen within board and committee meetings in real time, and off-line. Obtaining these data is not an easy undertaking, given the difficulty of negotiating access to study the “black box” of corporate governance.

2.2 Research issues

What constitutes board effectiveness, what constitutes director effectiveness, the relationship between independent governance structure and corporate performance is still a grey area. In order to determine with greater particularity the nature of board effectiveness and the relationship between this construct and corporate financial performance, there are three fundamental areas that need to be addressed by corporate governance researchers. Unfortunately, or fortunately, there are at present more questions than answers within each of these areas.

- The independence of judgement, competencies and behaviours of the chairman of the board – in short the “selection” of chair, not merely the “separation” of chair and CEO

- The behavioural "posture" of the CEO within the boardroom
- The effectiveness of individual directors, including their independence of mind, competencies and behaviours, not just their "regulatory" independence
- The most important predictor of director effectiveness is not independence, but strategic experience that matches the company's needs (Sonnenfeld 2002: 109). The researcher will analyse these predictors of effectiveness in this document as stated by Sonnenfeld (2002:109). Previous documents have found out that both independence and experience are important themes for a board to be effective.

2.3 Research objectives

a. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial service sector and to investigate themes that affect good corporate governance practices. The themes will be used to assess why investors prefer other investment portfolios and why the portfolios perform differently while operating in the same environment. Companies to be covered are Barclays – (ABSA), Standard Bank – (Stanbic Bank), First Rand Bank – (CBZ), Nedbank – (MBCH).
b. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency
c. To establish if strategic experience, training and accreditation of directors can improve corporate governance practice in the financial sector.

2.4 Research questions

Drawing from the literature, three strategic research questions were formulated as:

2.4.1 Strategic Questions

- What is the best way to measure bank's financial performance?
- What is the best way to assess Corporate Governance in the banks in SA and Zimbabwe?
- What factors/themes need to be managed in order to improve Corporate Governance in the financial sector?

2.4.2 Research Questions

a. How well did the banks perform financially and in terms of their Corporate Governance best practice?
b. Is there any connection between board performance and the following themes of Corporate Governance?
    I. Transparency
    II. Independence
    III. Level of strategic experience/training
    IV. Shareholder activism
c. What can boards do to bridge the Shareholder expectation gap?

2.5 Research justification

Reflecting investor expectations, (Larcker *et al.* 2004) research attempts to relate firm performance and corporate governance, with little convincing evidence found to date. Although more recent work considerably expands the governance factors examined, it has only been able to find relationships with a minority of those factors (Bebchuk *et al.* 2004; Brown and Caylor, 2004, Cremers and Nair, 2005; Gompers *et al.* 2003). There are mixed findings on the direction of causality between firm performance and corporate governance (Chidambaran *et al.* 2006; Core *et al.* 2006; Lehn *et al.* 2005). These findings bring into question whether it is reasonable to expect to find a relationship between firm performance and corporate governance, and prompts a critical examination of the premise on which that research is based. As Merino *et al.* (1987: 749) has observed "If posited relations do not isomorphically map to actual events, then a theory lacks ex ante descriptive power and the results of empirical tests become less meaningful".

This research questions the assumption that good governance (as proxied by board of director variables) will lead to enhanced shareholder value. It is suggested that there is an expectation gap between what stakeholders expect (e.g. investors, regulators, researchers, the media, and the public) and what boards of directors can reasonably contribute. This study critiques this premise/assumption by analysing the gap and looking at what any board can do to meet these expectations. However, it is acknowledged that research design flaws also contribute to problems of prior research attempting to relate firm performance and corporate governance.

The role of boards of directors is then considered. The confusion as to the role of the board, and the conflicting role of boards, are highlighted as these are likely to contribute to an expectation gap. The existence of performance gap and expectation gap resulted in the researcher finding justification in the need to study these gaps. Failure of banks in SA and Zimbabwe between 1994 and 2006 became a problem for the two Governments and the researcher felt it necessary to analyse how performance of banks differs while operating in the same environment. It became necessary to look at the leadership of the banks' effectiveness in managing the banks, which resulted in the author analysing different themes which affect corporate governance practice.

2.6 Research Process

The basic assumption of this study has been that, what happens behind the boardroom door remains a mystery until one goes behind the boardroom door to find out what happens inside. The performance of board members and the valuation of their performance is an interesting theme in the Corporate Governance research. The author followed the research process, which analysed each stage as defined by Kumar (1998).

This study proceeded through eight stages portrayed in Figure 2.1. Operational steps (signified by arrows), were taken to conduct the study. Theories were needed to carry out these steps (identified by rectangles). Intermediary steps (signified by circles) were needed to complete stages of research design (Kumar, 1998: 17). Once the research problem was formulated, the appropriate investigation was decided upon. The interviews were then ready to be actioned. Participant choice of research was a cross-sectional design. This is 'best suited when aimed at finding out the prevalence of a phenomenon, situation, problem, attitude or issue, by taking a cross section of a population' (Babbie, 1989: 89). The result gives an overall picture of the situation as it stands at the time. The survey undertaken, looked to discover the existence of a phenomenon, not to measure change; therefore a cross-sectional population design was chosen as suitable to examine the issues under consideration.

2.7 Selecting the sample of banks

The researcher identified four major banks operating in SA and Zimbabwe (document 1 and 3: 13) using the basis that all the four banks operate in SA and Zimbabwe. The four banks observe the requirements of the (King 2 Report 2002); they are all listed on the JSE and ZSE. We take sample for one or two reasons argued (DeFusco *et al* 2004: 286) and here the reason being to narrow down the population so that the study can be economically efficient. Selected banks were ABSA (Barclays), FirstRand Bank (FNB) (CBZ), Nedbank (MBCH) and Standard Bank (Stabic Bank) as they operate in both countries.

Within these banks, the researcher selected CEOs, Financial Directors and Chairman for Audit Committees as respondents to this document's questionnaires and each was interviewed. This sample is representative of the total population during the research, as they are the board members responsible for the preparation of the financial statements.

2.8 Requirements from interviewees

Respondents were selected based on either their position in the bank or in society. Researchers and Market analysts were included in the respondents list as a result of their contribution to this field of study. Some of the requirements were:

- **Chairman**
  The Chairman of each bank was required to discuss his relationship with the board, executive directors, the role of Audit Committee,

External Auditors, independency and how the bank operates. They also gave an insight into the environment in which banks operate and how the environment affects corporate governance practices.

- **CEO**

  Each CEO was required to discuss his relationship with the board, the history of the bank, performance and its future outlook. The issues of skills, training and politics were discussed

- **Financial Director**

  The financial director of each bank was required to provide the financial statements and giving explanations on the bank's financial performance. Most of the activities which have a financial impact were discussed.

- **Independent Directors**

  Experienced and independent board practitioners, whose experience is vital for championing the strategic direction of the bank. They also represented all other stakeholders of which the researcher could get independent opinions.

- **Non-Executive Directors**

  Their role as representatives of shareholders is important. NEDs plays an important role especially on social and cultural networks.

- **Chairman of Audit Committee**

  Responsible for internal controls, compliance reporting, risk management and the role of auditors (internal and external).

- **Company Secretary**

  Discussed the legal framework in which banks operate and how boards function.

- **CG Practitioners**

  Authorities in this field, people who have done some work or research in this field for example Mr M King and Advocate Myburgh

- **Market Analysts**

  They provided inside information and the historical performance of banks.

3 Literature review and Conceptual framework

A number of theories of board behaviour have been propounded over a long period, dating back as far as the 18th century. A succinct review of these is provided by Stiles and Taylor (2001: 371 - 375), but three main theories are of relevance to this study. ***Agency Theory*** focuses on the agent–principal relationship to further our understanding of the governing board. The agency relationship is a contract under which one or more persons, the principals, engage another person, the agent, to perform some services on their behalf. This involves delegating authority to the agent. Agency theory incorporates important assumptions about managerial behaviour being self-interested, prone to moral hazard and evincing bounded rationality (Simon, 1976). According to (Stiles and Taylor 2001), the theory regards the board of directors as an instrument of control.

Stewardship Theory propounds that there is no conflict of interest between managers and owners and that to be successful the organisation requires a structure that allows coordination to be achieved most effectively. Stewardship Theory, in contrast to Agency Theory, recognises a range of non-financial motives of managers found in the occupational psychology literature, for example need for advancement and recognition, intrinsic job satisfaction, respect for authority and the work ethic argued (Muth and Donaldson 1998: 5 -10).

The emergence of **S*takeholder Theory***, according to (Gay 2002: 36), was prompted by the growing recognition by boards of the need to take account of the wider interests of society. He lists the essential premises upon which Stakeholder Theory rests, citing (Jones and Wicks 1999: 206), as being: the corporation has relationships with many constituent groups (stakeholders) that affect, and are affected by, its decisions; the theory is concerned with the nature of these relationships in terms of both processes and outcomes and focuses on managerial decision-making; the interests of all legitimate stakeholders have intrinsic value, and no set of interests is assumed to dominate the other.

Summarising a long history of academic debate, (Stiles and Taylor 2001) pointedly note, "The view that one theory by itself does not illuminate the whole spectrum of board endeavour receives strong support from examination of *their* [emphasis added] shortcomings". Presciently, (Pettigrew: 1992: 178) opined that:

. . . the study of boards and their directors has not been helped by over-ambitious attempts to link independent variables such as board composition to outcome variables such as board and firm performance. The research agenda . . . need not be guided just by studies testing the explanatory power of agency theory or theories of managerial hegemony. The task is perhaps a simpler one, to. . . . provide some basic descriptive findings about boards and their directors.

Agency theory argues that shareholder interests require protection by separation of incumbency of roles of board chair and CEO. Stewardship theory argues shareholder interests are maximised by shared incumbency of these roles. Results of an empirical test by Donaldson and Davis (1991) fail to support agency theory and provide some support for stewardship theory. "The gap between the contributions of theory and what practitioners are interested in seems to be widening (Tricker 1994: 55). Both Agency and Stewardship studies typically do not reflect the dynamics of governance – the interplay of power, conflict and ideology". This study is an attempt to narrow that gap. Whilst it seeks to provide some new evidence about the utility of three extant theories, its principal aim is to present evidence about real board practice alongside the company performance with which it is associated. It should, therefore, be of value to practising directors, regulators and academics and it might illuminate a new direction in which theory might usefully be developed.

3.1 Study to test the theories

Although the author was unable to find in the literature any studies of the link between board *practice* and subsequent company performance, several studies have attempted to investigate the relationship between board *composition* and company performance. An article by (Korac-Kakabadse *et al.* 2001: 24) states,

. . . the analysis of 40 years of data from 159 studies, carried out by Dalton and Daily, concluded that there is no clear evidence of a substantive relationship between board composition and financial performance, irrespective of the type of performance indicators, the size of the firm or the manner in which board composition is measured. . . . most empirical studies are not theory driven and, of those that are, most are focused on structural dimensions of the board with only speculative inference of board behaviour.

However, one study has been selected for replication, because the researchers concerned formulated a number of hypotheses to test the validity of Agency and Stewardship Theories. (Muth and Donaldson 1998: 5 28), gathered data on the performance of 145 Australian companies in different sectors between 1992 and 1994 on the following measures:

- Return on Assets (ROA)
- Return on Equity (ROE)
- Profit
- Shareholder Wealth

• Sales Growth

They performed a factor analysis on the data and identified two independent performance factors: *Profit Performance and Shareholder Wealth.* Sales Growth, a single item, did not load onto either factor but the authors believe that, if a second Sales Growth item had been entered, Sales Growth would have probably constituted a third factor.

Regarding board composition, they gathered data on ten variables relating to Chairman duality; number of executive, NED and total directors; Interest Alignment; Age; Tenure (mean); External Organisation and Director; Internal Director; and, highest number of Director links. Again, a factor analysis on these variables produced two independent factors which they named:

Board Independence: *consisting of Chairman duality; board size; proportion of NEDs; interest alignment with owners and average age of directors.*

Network Connections: *consisting of average number of external organisation links; average number of external director links; average number of internal director links and highest number of links of an individual director.*

In order to test their hypotheses, the two board structure (composition) factors were correlated with the two company performance factors. Their main findings were that “the Agency theory predictions relating to performance were not upheld, while those of stewardship theory were supported” (Muth and Donaldson, 1998: 26). In particular, significantly better results were achieved by companies whose boards had fewer independent directors (NEDs) and where the roles of Chairman and CEO were combined. Smaller boards almost exclusively composed of executive directors seemed to protect shareholders' interests better than larger boards with a high proportion of NEDs. They concluded by advocating replication studies in the US and UK to see if their results stood up in countries with different boardroom structures and composition.

In a review of Muth and Donaldson's study, (Hunt 1998) draws attention to the importance of their results in respect of board theories, corporate governance codes of best practice, and points out that the study "has reminded us that there is a dearth of research on how boards actually work".

3.2 Director independence and Corporate Performance

The extent to which boards and non-executive directors are independent varies depending upon business or personal associations with senior management (Mace, 1986; Patton and Baker, 1987: 10). As a consequence, no common consensus exists as to a unique definition for independence.

Arguably, improvements in the independence of corporate boards ought to yield improvements in corporate performance. Independent directors are expected to be more effective in monitoring managers, thereby reducing the agency costs and risk arising from the separation of ownership (shareholders) and control (managers) in day-to-day company management. Empirical evidence challenges the conventional wisdom that board independence produces better corporate performance (Bhagat and Black, 1997: 1212, 2002: 231), stated that there is no evidence that companies with more independent boards perform better than other companies, which is in agreement with the findings of (Korac-Kakabadse *et al.* 2001: 25). Studies of outsider ratios and corporate performance have produced correlations ranging from positive (Pearce and Zahra, 1992) to negative (Beatty and Zajac, 1994:313 -330). Some studies have found zero or near-zero effects (Buchholtz and Ribbens, 1994:554 - 561). Yermack (1996: 185) found a negative relationship between the proportion of independent directors and corporate performance. Further doubt was cast by two UK studies (Vafeas and Theodorou, 1998: 383; Laing and Weir, 1999) which failed to find a relationship between the proportion of non-executive directors and corporate performance.

Another researcher has reported that a higher ratio of executive, not outside directors, is associated with higher R&D spend (Baysinger *et al.*, 1991: 101), greater likelihood of CEO dismissal in times of financial crises (Ocasio, 1994: 285) and higher firm performance (Pearce, 1983: 298). These studies argue that executive directors, who have access to full information about their companies, are in a better position than outside directors to make decisions about critical areas of operation and performance. On the other hand, the contrasting executive-dominated board is seen as a device for management entrenchment; there have been calls for boards to have a “substantial majority” of independent directors. Yet there are numerous anecdotes where apparently independent boards have not prevented shareholder wealth destruction, (e.g. Enron had 15 “independent” directors on its 17-member board) (Paltrow, 2002; United States Senate, 2002).

Proponents of board reform have long advocated non-executive director representation as a means of increasing the independence and effectiveness of boards (Bacon and Brown, 1973; Dayton, 1984: 34;

Waldo, 1985). However, defining "independence" and applying appropriate criteria to selecting non-executive directors is a question of judgement. What one person considers independent, the next person may not.

A UK survey (KPMG, 2002) of views on independence found that directors should not:

- Represent a specific shareholder or other single interest group (96 per cent)
- Participate in company share option or performance-related remuneration schemes (93 per cent)
- Have conflicting or cross directorships (89 per cent); or
- Have significant financial or personal ties to the company or its management which could interfere with the director's loyalty to shareholders (96 per cent).

Furthermore, far more respondents considered directors not to be independent where they had been employees for more than five years (64 per cent). By contrast, only 25 per cent of respondents considered directors to lose their independent status when they had served as a director for more than five years.

3.3 New information on Corporate Governance

"Modern firms suffer from a separation of ownership and control. These firms are run by managers (agents), who are accountable to dispersed shareholders (principals). The question is how to ensure that managers follow the interests of shareholders in order to reduce costs associated with principal-agent theory. To do that, principals have to deal with two problems:

- Face an adverse selection problem, that is they must select the most capable managers with shareholder interest
- They are also confronted with a moral hazard problem that is how to adequately motivate the managers to put forth the appropriate effort and make decisions aligned with shareholder interests." (Kyereboah-Coleman and Biekpe 2006: 610 - 611)

This scenario fits into the discussed principal-agent paradigm discussed in document 2: 38 and document 3: 3, which (Barako *et al* 2006: 111 – 112), argued that there is a positive association between the presence of audit committee and corporate disclosure practices, which reduces agents costs as a result of added transparency. The presence of an audit committee is associated with reliable financial reporting, such as, reduced incidence of errors, irregularities and other indicators of unreliable reporting stated (Mcmullen 1996: 87, Barnes 2004: 96). The researcher is in agreement with McMullen (conceptual framework, document 2: 25). Audit committees recently are viewed as monitoring mechanisms that enhance the audit attestation function of external financial reporting.

Markarian et al (2007: 295) argued that global financial markets appear to affect not only competition and corporate strategy but also the way in which the companies cope with conflict of interest between owners and directors. This has led to shareholders adopting the active shareholder role; institutional investors have become more active participants in the governance of their corporate holdings argued (Carleton et al 1998: 1335, Gillian and Starks 2000: 276). During the 1990s in all the OECD countries, institutional investors increased their activism and started seeking for a governance model that protects the interests of minority shareholders. As a consequence, it seems that the different corporate governance models are shifting towards a non-Anglo-Saxon model characterized by an increased relevance of internal mechanisms of control and disclosure regarding governance practices. The non-Anglo-Saxon model advocates for smaller boards, independent mechanism of control, more independent directors, more independent audit, nominating, audit and remuneration committees. Shareholders are advocating for more power to recruit and dismiss directors.

3.3.1 Factors to test the effectiveness of board of directors

Institutional investors have grown in power and influence during the last few years and have exerted tremendous influence on the companies in which they invest (Webb 2002: 67). Document 3 and 4 established that Shareholders are now more actively involved in the formulation of bank strategies than before for example FNB Shareholders are involved in the administration of the bank. Investors are willing to pay a premium of up 27% when investing in a well-structured organization argued, (Garratt 2003, Kakabadse 2002 and Frederikson 1992). Well-structured organization means an organization that observes best corporate governance practices. The reputation and governance of corporations translate into a “governance premium,” which (McKinsey and Company 2002) measured and found that it translates into higher price/earnings (P/E) ratio and other improved metrics, (Levitt 1999, Howell and Hibbard 2002: 7).

The new conceptual framework highlighted the mechanisms that are required to be triggered in order for the banks to be effective and creating shareholder value (Chart 3.1). Some of which are skills and experience of directors, culture, understanding of regulatory framework and the environment in which banks operate. This together creates a governance process that banks must follow for them to attract investment and be able to create premium for shareholder return argued (Kakabadse 2002).

The OECD (1999) concluded that adherence to best practice of good corporate governance will help to improve the confidence of investors, may reduce the cost of capital and more stable sources of capital. Adherence to best practice of good governance, together with Chart 3.1 results in an effective board. The author agrees with the conclusion by the OECD (1999) as well governed banks are attractive to investors for example the acquisition of ABSA by Barclays Plc. in 2005 and Standard Bank by Industrial and Commercial Bank of China (ICBC) in 2008. The model developed by Ingley and Van der Walt (2001: 178 – 179) (Chart 3.1) creates a bank that is attractive to investors and creditors as it results in an effective board, which all the four banks were found to be complying with.

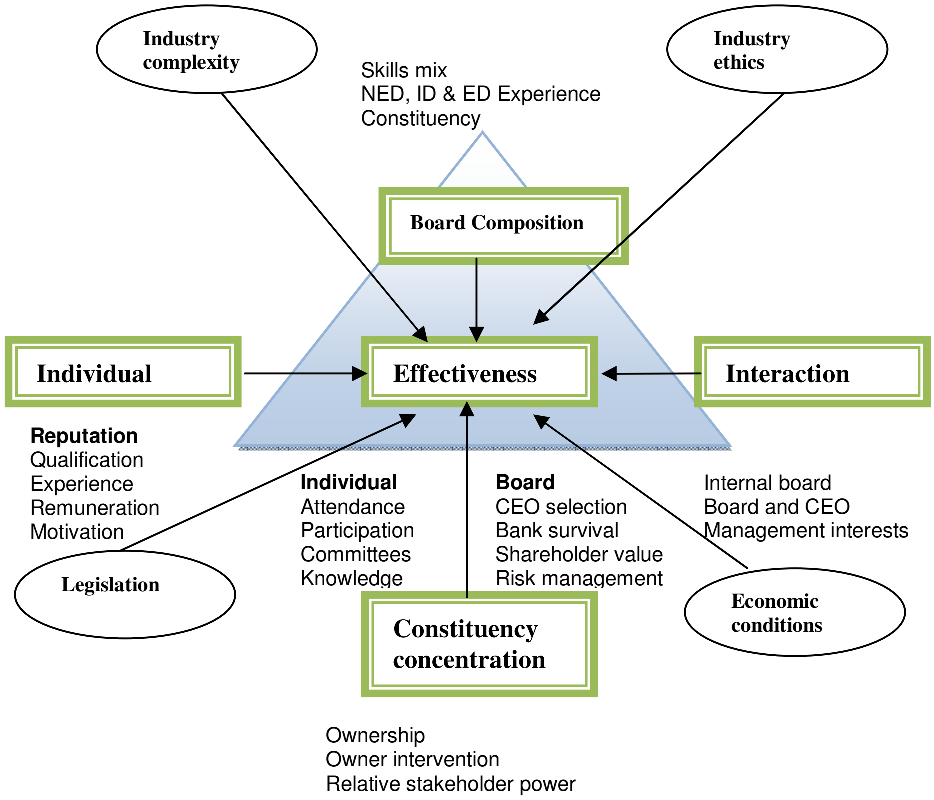


Chart 3.1: Source: Ingley and Van der Walt (2001: 179) – Effective board

3.4 Corporate Governance literature in the financial sector

Financial service sector is a critical part of any economy and is particularly significant in South Africa and Zimbabwe, the core being the historic city of Johannesburg, one of the world's leading business hub. Banks provide deposits and loan facilities for personal and corporate customers, making credit and liquidity available in adverse market conditions and providing access to the nations' payments systems argued (Handley-Schachler *et al* 2007: 628).

Recent corporate collapses and malpractices within the financial sector (Document 2: Appendix 1) suggest that, despite SA financial markets being semi – developed and relatively sophisticated, there has been sufficient system weaknesses to enable episodes of financial company malfeasance. The main cases are BCCI, Saambou Bank Ltd, TA Bank of South Africa Ltd, The Business Bank Ltd, Barbican Bank and Trust Bank. Corporate governance became an integral part of all banks' operations. Accordingly, banks became fully committed to the principles of the code of corporate practices and conduct set out in The King 11 Report (2002). The purpose of King 11 Report is to promote the highest level of corporate governance in SA and Zimbabwe. In supporting the code, the directors' recognize the need to conduct the enterprises with integrity and in accordance with generally accepted corporate practices as defined by the relationship in Chart 3.1 above.

As a result of the crisis in the sector from 1991, the banks were required to identify and meet the requirements of different stakeholders as in Chart 3.1 argued (Handley-Schachler et al 2007: 628). The four major banks became committed to creating value for all its stakeholders who are:

- **Shareholders**

  Delivering sustainable capital and earnings growth.

- **Customers**

  Creating lasting and mutually beneficial relationships.

- **Employees**

  Creating a positive, supportive, healthy and diversity-friendly working environment.

- **The community**

  Being the preferred partners in growing Southern Africa's prosperity and developing a culture of positive corporate citizenry.

- **Governments and regulators**

  Building a better Africa by supporting transformation and the development of financial services markets.

Principal	Primary Agent	Relationship with the Bank	Objectives of Principal
Ordinary Shareholder	• Non Executive Chairman • IDs • NEDs • EDs	• Ownership • Agents manage the bank	• Investment or capital growth • Cash generation • Dividend growth
Preference Shareholder	• Non Executive Chairman • IDs • NEDs • EDs	• Manage bank liquidity • Ability to service the loan	• To receive a specified annual dividend on capital invested
Holder of Bonds or Debentures	• Bank or board	• Debtor, Creditor	• To receive a specified annual dividend on capital invested each year
Depositor	• Bank	• Unsecured creditors with right to repayment	• Safe custody of funds • Disburse funds on demand • To receive interest depending on market forces
Account	• Bank	• Unsecured	• Safe custody of funds

Principal	Primary Agent	Relationship with the Bank	Objectives of Principal
Holder		creditors with right to repayment	• Disburse funds on demand
Contributor to managed funds	Bank – Fund Manager	Agent to agent as Fund Manager is agent of the investor	• Maximize profits • High return due to diversification

Table 1: Stakeholder association in the banking sector: Adapted from: (Handley-Schachler et al 2007: 625)

3.5 Measuring bank performance

There exists a multitude of options for measuring corporate progress, including those pertaining to financial and non-financial performance. In the case of the latter, and for studies of this type, preference is frequently given to those concerned with shareholder returns: for instance, (Muth and Donaldson 1998) use the accounting-based Return on Equity. Perhaps the most popular measure, recently, has been Total Shareholder Return (TSR), also used by Muth and Donaldson but described as Shareholder Wealth. TSR is derived by adding the dividend income enjoyed by shareholders to the change in the market value of their investment over a prescribed period of time, e.g. one year. Inevitably, however, the efficacy of this measure suffers from the vagaries of the Stock Market, including misalignment between reasonable shareholders' expectations and underlying business fundamentals. This phenomenon was particularly acute during the dotcom boom of 1999 to 2002 Dulewicz and Herbert (2004: 265) – a key period for this study. Notwithstanding this difficulty, a more compelling reason for rejecting TSR is that it fails to gauge directly the efficiency with which company leaders generate profits from the assets with which they are entrusted, irrespective of how those profits are delivered to shareholders, via dividends or capital appreciation.

The model which is primary measure of bank performance is designated Cash Flow Return to Total Assets (CFROTA) Dulewicz and Herbert (2004: 265). This ratio was selected for three, principal reasons. First, its numerator circumvents the impact of two, variously contentious, accounting policies (concerning depreciation of fixed assets and amortisation of goodwill) and provides a close proxy for the company's cash flow. Second, its denominator gives expression to the total value of all (conventional) assets that, de facto, the company's management deem necessary to conduct their business – however these are financed (by shareholders and others). Fraser – Sampson (2007: 71) argued that earnings before interest, tax, depreciation and amortization (PBITDA) is claimed to be a pure cash flow measure since it excludes non cash flow items such as depreciation and amortization. In other words it eliminates the effect of both financial structuring and accounting policy and decisions.

Finally, by combination of these two variables, the researcher has a plausibly robust measure of the efficiency mustered by the banks' leaders in marshalling the resources with which they have been entrusted. CFROTA is similar though not identical to Muth and Donaldson's Return on Assets; and the researcher has not replicated their use of Profit (Margin) on the grounds that it is itself a component of Return on Assets. For the sake of comprehension, the author preferred to use (with due caution) the single dependent variable CFROTA rather than Muth and Donaldson's Profit Performance (PP) factor, which incorporates three interconnected measures all carrying similar accounting limitations.

However the argument put forward by Dulewicz and Herbert (2004: 265) and Fraser – Sampson (2007: 71) is not strictly true. While EBITDA is a better indicator of likely cash flow than any of the other earnings measures the researcher has found out that it does not take into account things such as required capital expenditure and working capital. Of course a purist would say that this point is well understood and that all EBITDA is supposed to be is a “top line” entry from which to start cash flow calculations as it is cash flow that increases shareholder value.

Dulewicz and Herbert (2004: 265) defined CFROTA (per cent) as:

$$\frac{\begin{array}{c}\text{Operating Profit Before Interest,}\\ \text{Taxation, Depreciation and Amortisation}\end{array}}{\begin{array}{c}\text{Total Assets (Fixed [Tangible and}\\ \text{Intangible] plus Current)}\end{array}} \times 100$$

Formula 1: Calculation of CFROTA

This ratio was calculated by reference to financial year-end data for each of the years 2002 - 2006, inclusive. In a small number of cases, due, for example, to changes of accounting period, interpolative estimates were made to obtain year-on-year comparability. Also, in the case of Banks – for which FAME (a finance database) data were unavailable – a proxy (Real Return on Equity) was employed in place of CFROTA.

In addition to CFROTA, the author employed one further measure of company performance namely, Sales Turnover (hereafter “Sales”). This was selected in order to explore the relevance of bank *size* and *growth* to the investigation. In particular, the researcher was interested in the presence of any evidence that might resonate with the pursuit of these outcomes as management objectives, in their own right. For instance, Agency theory might lead us to postulate that management teams or, indeed, boards that enjoyed vacuous governance regimes would be disposed to pursue objectives encapsulating motives of power or reputation more immediately compelling than shareholder interests. Sales data was tabulated for each financial year ending during the period 2002–2006, inclusive (Appendix 1 to 4).

Finally, the author has not adjusted CFROTA (and Sales) data for business cycle, sectoral or other external influences. Although these exogenous variables must be assumed to have some impact on banks performance, the contention is that they cannot, realistically, be separated from the plethora of internal variables, including board composition and practice, capable of influencing that performance. Lending to small and medium business was not considered as this is a market for all banks although some banks are more risk taking than others.

Why people wonder why we add back interest expense it's because we are going to use it to compare firms based on enterprise value (White *et al* 2003: 151, Brigham and Houston 1998: 78). In the EV calculation we include net debt. Some banks have too much debt while others have less. If we do not also add back interest expense to EBITDA, we will get a distorted view. We have to add back interest to earnings so that we are comparing apples with apples.

For the same reason we add back tax, primarily because debt levels have an impact on taxes, since tax is deductible. By adding these two items back, we can reasonably compare different banks without allowing financing decisions. (White *et al* 2003: 152) added that, EBITA is computed by adding depreciation and amortization expense to earnings before interest and taxes. It is often used as a measure of cash flow, but suffers from some limitations in that it ignores:

- Variations in accounting methods
- Cash required for working capital
- Debt service and other fixed charge requirements
- The need to maintain productive capacity

3.6 Ubuntu

The word Ubuntu has its origin in the Bantu Languages of Southern Africa, and they're many possible translations in English for Ubuntu, humanity towards other, I am what I am because of what we are, a person is a person because of other person. An attempt at a longer definition of Ubuntu was made by (Archbishop Tutu 1999) when he argued that, a *person with ubuntu is open and available to others, affirming of others, does not feel threatened that others are able and good, for he or she has a proper self-assurance that comes from knowing that he or she belongs in a greater whole and is diminished when others are humiliated or diminished, when others are tortured or oppressed.*

Mandela (1994) explained Ubuntu as "*a traveller through our country would stop at a village, and he didn't have to ask for food or for water. Once he stops, the people give him food, entertain him. That is one aspect of Ubuntu but Ubuntu has various aspects. Ubuntu does not mean that people should not enrich themselves. The question therefore is: Are you going to do so in order to enable the community around you to improve?*"

Ubuntu is seen as one of the founding principles of the new Africa's governance, and is connected to the idea of an African renaissance. In the political sphere, the concept of ubuntu is used to emphasize the need for unity or consensus in decision-making, as well as the need for a suitably humanitarian ethic to inform those decisions.

As noted above, Ubuntu is difficult to define succinctly, but the author will draw on a few definitions of Ubuntu to illustrate his breadth of interpretation. Louw (2001) describes the concept of Ubuntu within the following phrase: *"Umuntu ungumuntu ngabanye abantu"* (Nguni languages of Zulu and Xhosa). The phrase roughly translated into English would mean; *"A person is a person through other persons"*.

This encapsulates the concepts of "humanity", "humanness" and even "humane-ness" and expresses respect and compassion to others argued (Louw, 2001). Broodryk (2002) states that Ubuntu is essentially:
"An ancient African worldview based on the values of intense humanness, caring, respect, compassion, and associated values ensuring a happy and qualitative human community live in a spirit of family." Ubuntu could also be described as a community-based mindset in which the welfare of the group is greater than the welfare of a single individual in the group (Kwamwangamulu & Nkonko, 1999:27).
"Ubuntu" is an African worldview and is driving much of Africa's values and social thinking (Broodryk, 2004). Ubuntu has also been described as an African phenomenon and an accurate reflection of Africa's historical cultural, legislative and social systems. The term Ubuntu features very largely in several well-known African agenda's such as the *African Renaissance* and the *Millennium Action Plan* (Jana, 2001). Beyond that Ubuntu is becoming a globalising concept that is being seriously considered as an alternative to "extractive capitalism" (Van

Binsbergen, 2002). Ubuntu is currently being driven and marketed by the political powers and intellectual elite of many countries in Africa as the solution to the poverty, political strife; conflict of interest, ethnic conflict experienced in Africa and is an “awakening” of true africanness. This is especially true of post-1994 South Africa where the political leadership is looking for an ideology to press into service to build a new society. Above that, Ubuntu is seen as an answer to conflict resolution and Restorative Justice (Anderson, 1999; Van Binsbergen, 2001).

3.6.1 Ubuntu Concept

Human beings are recognised as being all equal, sharing a common basic brotherhood, having the right to life, respect for authority and finding their ultimate meaning and purpose within communities. The last attribute is in stark contrast to the extreme individualism and self-centredness of Western cultures. Ubuntu dictates that boards should act responsibly, taking the stewardship role where self-centredness is not acceptable.

The literature review confirms that *Communalism* comes across as a foundational cornerstone of Ubuntu. It would be accurate in stating that *Ubuntu is communalism* in the most fundamental sense of the word. According to Kwamwangamulu & Nkonko (1999:27) communalism is the core value of Ubuntu and implies that the interests of the individual are subordinate to that of the group. The communalist group will focus the interests of each individual member towards those activities and behaviours that will ensure the good of the group. Communalism furthermore believes that once the good of the group is ensured, the benefits will flow through to each individual member.

Another associated concept of Ubuntu communalism is that of collective solidarity, meaning that individuals will focus their interests, activities, and loyalties of their own accord, in line with the group's cause and well-being (Mokgoro, 1997). Each individual realises that he is part of a group and that the group depends on his skills, inputs, labour and loyalty in order to survive. The communalist lifestyle also places within each individual a strong sense of belonging – arguably one of the strongest needs in humans today. The communalist lifestyle thus provides each member a sense of purpose and security in relation to that group.

The strong collective thinking of Ubuntu implies that the individual members of the group cannot imagine ordering their lives individualistically without the consent of his family, clan or tribe (Kwamwangamulu & Nkonko: 1999:27). The communalist lifestyle goes so far in that children are not the sole responsibility of the parents alone, but are the responsibility of the extended family and entire clan of adult members. Individuals are taught, by experience, that an individual cannot live alone or manage life by himself; he needs the collective wisdom and experience of others in order to become his best. By becoming his best he also will benefit the group as a whole.

One observation about the communalist nature of Ubuntu is that it is sustainable at a local village level, but is difficult to exercise beyond the boundaries of everyday relationships. Individuals have a limited capacity to relate to other people in terms of sheer numbers of relationships, and since relationships are a cornerstone to Ubuntu, the practice of Ubuntu occurs primarily within the boundaries of the individual's primary relationships. This does not mean that Ubuntu's ethos and culture are not carried over to other areas, but that it is practised in localities by individuals in groups that know each other well (Scorgie, 2004).

According to (Mbigi and Maree 1995:2) the individual owes his existence to others because "*you are because I am*" and "*I am because you are*" (cited in Brack et al, 2003). This is interpreted from the Ubuntu statement, "*people are people through other people*". Bhengu (1996) says that in the context of Ubuntu, a man cannot exist *of himself*, *by himself*, or *for himself* (cited in Kwamwangamulu & Nkonko, 1999). Therefore man exists in a social cluster and has an interpersonal nature, a nature dependent on others to help define and distinguish. The strong communalist and interdependent nature of Ubuntu has established the virtues of patience, hospitality, loyalty, respect, sociability, and sharing among its adherents (Kwamwangamulu & Nkonko, 1999:27). Kwamwangamulu & Nkonko further explain that people bound within high-context cultures are strongly interdependent and deeply involved in each other's lives. This means that individuals become entwined with other members of the family, clan or tribe over their lifetime in a series of obligations and expectations. The social value of interdependence is taught in many African proverbs (Kwamwangamulu & Nkonko, 1999):

- A man here, a man there means no fear. (*We can achieve anything if we support one another.*)
- The sickness of the eye is the sickness of the nose. (*Your neighbour's problem is your problem.*)
- A neighbour is a sibling. (*Care for your neighbours as family.*)

3.6.2 Locus of Corporate Governance

Locus of control is a personality construct referring to an individual's perception of the locus of events as determined internally by his/her own behaviour versus fate, luck, or external circumstances. Some research McCombs, (1991: 6) suggests that what underlies the internal locus of control is the concept of "self as agent." This means that our thoughts control our actions and that when we realize this executive function of thinking we can positively affect our beliefs, motivation, academic and professional performance. "The self as agent can consciously or unconsciously direct, select, and regulate the use of all knowledge structures and intellectual processes in support of personal goals, intentions, and choices." "The degree to which one choose to be self-determining is a function of one's realization of the sources of agency and personal control" (McCombs 1991: 7). In other words, we can say to ourselves, "I choose to direct my thoughts and energies toward accomplishment or success of the bank. I choose not to be daunted by my anxieties or feelings of inadequacy."

Within psychology, Locus of Control is considered to be an important aspect of personality. More simply: Do you believe that your destiny is controlled by *yourself* or by *external forces* (such as fate, God, or powerful others) argued (Rotter 1966). Thus, locus of control is conceptualised as referring to a unidimensional continuum, ranging from *external* to *internal*:

External Locus of Control	**Internal Locus of Control**
Individual believes that his/her behaviour is guided by fate, luck, or other external circumstances	Individual believes that his/her behaviour is guided by his/her personal decisions and efforts.

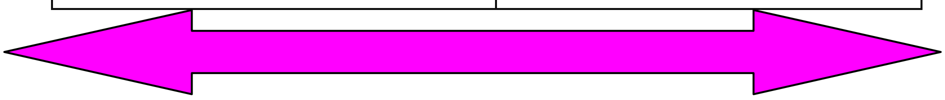


Table 2: Rotter, J. (1966): Locus of control

The full name Rotter gave the construct was Locus of Control of Reinforcement. In giving it this name, Rotter was bridging behavioural and cognitive psychology. Rotter's view was that behaviour was largely guided by "reinforcements" (rewards and punishments) and that through contingencies such as rewards and punishments, individuals come to hold beliefs about what causes their actions. These beliefs, in turn, guide what kinds of attitudes and behaviours people adopt when managing organizations. This understanding of Locus of Control is consistent, for example, with Zimbardo (1985: 275), whose belief about whether the outcomes of our actions are contingent on what we do (internal control orientation) or on events outside our personal control (external control orientation).

In general, it seems to be psychologically healthy to perceive that one has control over those things which one is capable of influencing. In simplistic terms, a more internal locus of control is generally seen as desirable director behaviour in the banking industry in SA and Zimbabwe. Having an Internal locus of control can also be referred to as "self-agency", "personal control", "self-determination," which resulted in the locus of corporate governance.

In view of Table 22: this document seeks to investigate how incentive mechanisms can help principals to get a return on their exchanges with management. Director's effort can be associated with the incentives available or recognition. In terms of transaction cost economics, corporate governance deals with the institutions that may help to minimize the transaction costs of the managerial agency problem. The reduction in agency costs may result in more transparency and strong internal controls. The impact of the stewardship/Ubuntu theory will be felt as management will not only be after self-interest but recognition through contribution to the bank and position in society (Figure 2 above).

A higher cost to income ratio is an indication of a profitable bank which will result in a higher CFROTA. A CFROTA growth result in the growth of shareholder value as cash reserves will be available to the bank. This change in matrix will result in efficient banks which continue to create above shareholder expectation. All the five stakeholders will be satisfied with the effective performance of the banks, which support the new conceptual framework as mechanisms for lower costs will trigger outcomes which create shareholder value.

3.6.3 CG Cultural factors in SA and Zimbabwe

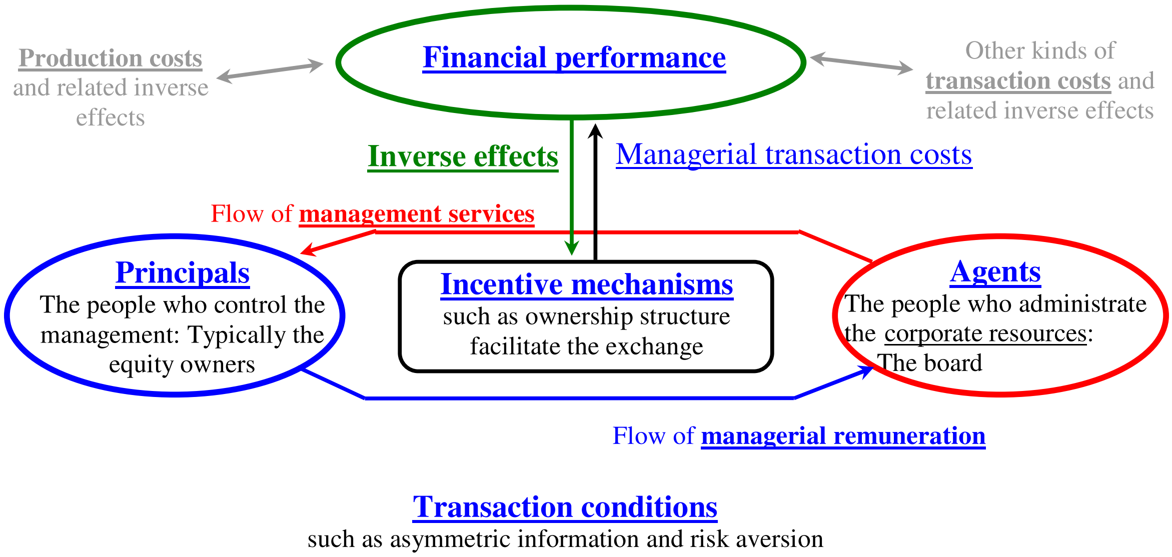
Ubuntu is essentially an African philosophy of life, which reflects the African approach and worldview when considering cultural, social and political aspects of life (Justice Mokgoro 1997). Furthermore Justice Mokgoro states that Ubuntu is a metaphor that describes group solidarity in such a way that the survival of the group depends on this solidarity of individuals to the group. The individual's existence and identity is relative to the group and is defined by the group as well. This is in stark contrast to the Cartesian notion of individuality that states, "I think, therefore I am". The Ubuntu notion of individuality is more complex and multi-facetted and suggests a multiplicity of "I's" – one for each relationship the Ubuntu individual is involved in (Louw, 1999). According to Van Binsbergen (2002) Ubuntu recognises the following four attributes of human beings:

- Human dignity and equality, universal brotherhood and sacredness of life (Corruption and fraud not acceptable in an Africa society. Individuals are expected to respect others and not deprive them of benefits created by the banks.)

- “Being” is the most desirable state of life (i.e. community-based living)

It is therefore under this premise that Ubuntu is enshrined in respect for others, elders and people in authority. Respect for others means the removal of self-centredness and selfishness. Ubuntu as a concept promotes good governance and transparency. Systems of capitalism influences boards to act in contrast with their principles argued (Tutu 2009). It is within this line that Stewardship and Ubuntu are similar theories that promote good corporate governance.

The Corporate Governance problem



Examples of conditions, mechanisms and managerial transaction costs

Transaction conditions	Incentive mechanisms	Managerial transaction costs
Environment conditions	✓ Decision systems	✓ Monitoring costs
✓ Asymmetric information	✓ Performance monitoring systems	✓ Perquisite consumption
✓ Complexity / uncertainty	✓ Remuneration systems	✓ Pet projects
✓ Difficulty in measuring	✓ Bankruptcy systems	✓ Free cash flow dispersion
✓ Asset specificity	✓ Ownership structures	✓ Hampered capital access
✓ Duration / frequency	✓ Creditor structures	✓ Replacement resistance
Behavioural conditions	✓ Capital structures	✓ Resistance to profitable liquidation or merger
✓ Opportunism	✓ Market for corporate control	✓ Power struggles
✓ Bounded rationality	✓ Market for management services	✓ Excessive risk taking
✓ Risk aversion	✓ Product market competition	✓ Self-dealing transfer pricing
		✓ Excessive diversification increases risk
		✓ Excessive growth strains resources

Chart 3.2: Locus of corporate governance - www.encycogov.com

3.6.4 Ubuntu versus Stewardship and Agency Theory

The proverbs above indicate the strong bonds of intimacy, mutual support and interdependence found in true Ubuntu societies (monarchies). Davis *et al* (1997) argues against the opportunistic self – interest assumption of agency theory, claiming that managers are motivated by "a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility, authority and thereby gain recognition from peers and bosses. This perspective recognizes a range of non-financial motives for managerial behaviour and it supports the active school (Document 2: 30), arguing that the strategic role of the board contributes to this overall stewardship of the company argued (Hugg 1998: 101, Stiles and Taylor 2001). Traditional (monarchies and chieftainships) communities are societies where Ubuntu is practiced. Directors can practice the Ubuntu concept if they observe traditional values as explained by Van Binsbergen (2002) above. There is a relationship between Ubuntu, Stakeholder Theory and The Stewardship Theory, which if directors adopt these concepts, then the level of fraud, manipulation of financial statements and misrepresentation may be reduced in the financial sector in SA and Zimbabwe argued interviewee 34.

3.7 Critiquing the theories

Comparison	Stewardship Theory	Ubuntu Theory	Agency Theory
Manager as	Stewards	Stewards	Agents
Approach to governance	Sociological and psychological	Communalism	Economic
Model of man behaviour	Collectivistic, pro-organizational and trustworthy	Collectivistic, trustworthy and respect	Individualistic, opportunistic and self-serving
Managers motivated by	Principal objectives	Principal objectives and community development	Their own objectives
Manager – Principal interest	Convergence	Convergence	Divergence
Structures that	Facilitate and empower	Facilitate and empower	Monitor and control
Owners' attitude	Risk propensity	Risk propensity	Risk aversion
The Principal-Manager relationships relay on	Trust (The willingness to be vulnerable)	Trust (the willingness to serve the community)	Control (the unwillingness to be vulnerable)
Motivation	Higher order needs (Growth, achievement, self-actualization and intrinsic	Community upliftment (Empowerment, growth, self-actualization) and intrinsic	Lower order needs (Physiological, security, economic) and extrinsic

Social comparison	Principal	Principal	Other managers
Identification	High value commitment	Belonging and high value commitment	Low value commitment
Power	Personal (Expert, and referent)	Personal (Inheritance, expert, and referent)	Institutional (Legitimate, coercive and reward)
Management philosophy	Involvement oriented	Collective solidarity	Control oriented
Risk orientation	Trust	Trust	Control
Time frame	Long term	Life	Short term
Objective	Performance enhancement	Performance enhancement and development	Cost control
Cultural differences	Collectivism, low power distance	Collectivism	Individualism, high power distance

Figure 3-1: Critical analysis of the theories

Managers choose to behave as stewards or agents. Their choice is contingent on their psychological motivations and perceptions of the situation argued (Vargas Sanchez 2004). There is a strong correlation between Stewardship and Ubuntu theories (Figure 2), while these contrast with Agency theory (Figure 2). If the executive's motivations fit the model of man underlying Stewardship theory, empowering governance structures and mechanisms are appropriate. Thus, a Steward's autonomy should be deliberately extended to maximize the benefits of a Steward, because he or she can be trusted (Figure 2).

In this case, the amount of resources that are necessary to guarantee pro-organizational behaviour from an individualistic agent are diminished, because a Steward is motivated to behave in ways that are consistent with organizational or societal objectives. Indeed, control can be potentially counterproductive, because it undermines the pro-societal or organizational behaviour of the Steward, by lowering his or her motivation (Vargas Sanchez 2004).

3.8 The Conceptual Framework

Following Dulewicz *et al*. (1995), who studied corporate boards, (Cornforth 2001: 219) conceptualised board performance in terms of a simple input-output model. The main outputs of the board are the various functions or tasks the board performs to create value. Drawing on various normative models of board effectiveness, particularly (Ingley and Van der Walt 2001: 179, Garratt 1996: 83), five broad roles are defined: strategic direction and policy making; external accountability and relations with stakeholders; supervising and supporting management; stewardship of the organisation's resources; and board maintenance. Compliance with these functions will result in boards being effective (Chart 3.1). The author adopted this model and improved it in line with the Conceptual Framework in Document 2: 25.

Context/Inputs

The main inputs are listed in Chart 3.1, which are the social cultural requirements for a board to operate effectively. These inputs are transformed or triggered into outcomes through the board's mechanisms (structures and processes). Values and conduct of the board is determined by the moral behaviour of individual board members (Ubuntu), which results in those behaviours being triggered to achieve better performance of the bank and meeting the requirements of the code of best practice.

New Conceptual Framework

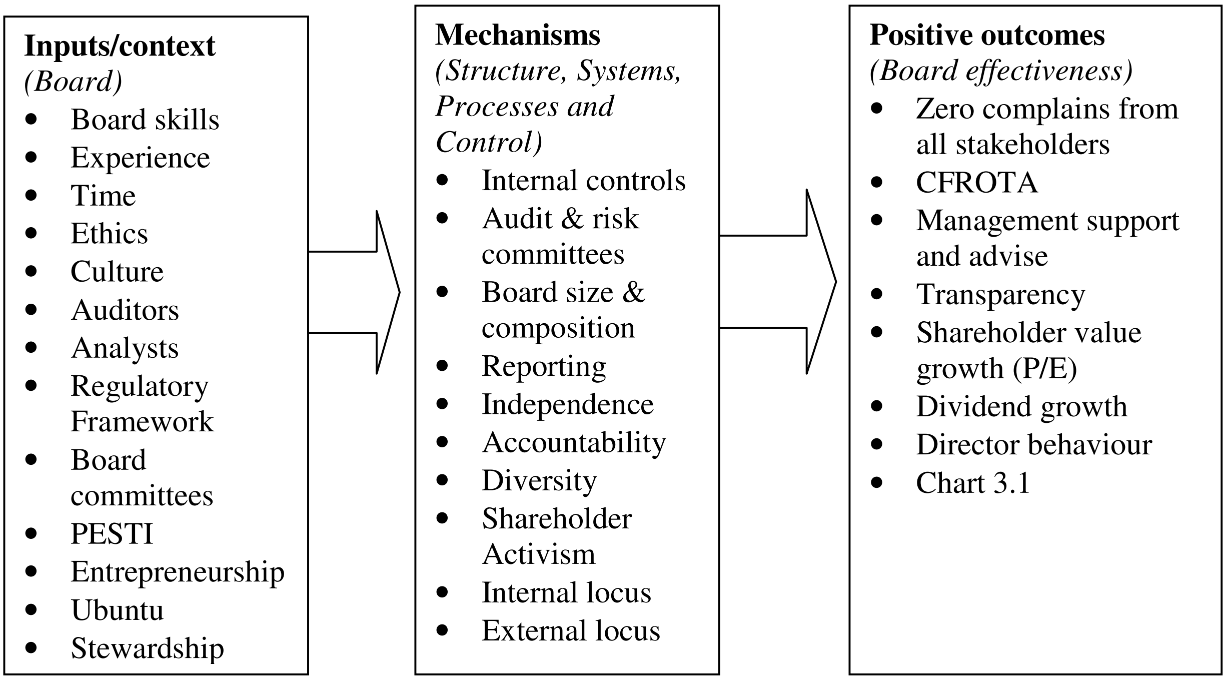


Chart 3.3: Input – Triggers – Outcome Model

Mechanisms

Mechanisms describe what it is about programmes and interventions that bring about any effects. Mechanisms are often hidden, rather as the workings of a clock cannot be seen but drive the patterned movements of the hands. This realist concept tries to break the lazy linguistic habit of basing evaluation on the question of whether ‘programmes work’. In fact, it is not programmes that work but the resources they offer to enable their subjects to make them work. This *process* of how subjects interpret and act upon the intervention stratagem is known as the programme 'mechanism' and it is the pivot around which realist research revolves.

The author was influenced heavily by the work of (Bradshaw *et al.* 1992: 227 – 248, Pawson and Tilley 2004: 65 - 216) in conceptualising board mechanisms and internal controls. Board structures are conceptualised as processes that have become formalised and codified, and that subsequently constrain board processes and behaviour, for example board size, the existence of sub-committees, the frequency of meetings and the existence of job descriptions for board members argued (Cornforth 2001: 219). Bradshaw *et al.* (1992: 227 – 248) researched on inputs that needs to be triggered to create effectiveness while Pawson and Tilley (2004: 65 - 216) looked at board effectiveness. Board processes include how board meetings are conducted, the clarity of board roles, the extent to which a common vision for the organisation exists, the ability to manage conflict within the board and between the board and staff, the quality of communication between the board and staff, and whether boards and managers periodically review how they work together.

Outcome

The key point here is that 'the measure' is not the basic unit of analysis for understanding causation. A measure may work in different ways or, in realist parlance, they may trigger different mechanisms. Mechanisms also explain a programme's failure or success, of course, so to this list we might add some adverse processes, which can cause negative triggers to the board's effectiveness.

The result of the bank being considered to be following the requirements of the code of best practice is as a result of zero complains from all stakeholders and increase in CFROTA argued interviewee 3. If there are no complaints from all stakeholders, that means the bank, has an effective board, which is independent and transparent, argued the Chairman of the King 2 Report (2002). Stewards look after the flock so that none of the sheep get lost. In the same way directors are required to act as Stewards who look after the assets of the bank for the benefit of all Stakeholders. Ubuntu requires that, those in leadership must respect the communities they serve including taking care of the assets for the benefit of society not for themselves.

3.9 Themes influencing the conceptual framework

- **Independence**

  The proposition that directors should *[“act”]* independently of management, through a thoughtful and diligent decision-making process has been a major preoccupation of corporate governance scholars for several decades argued (MacAvoy and Millstein 2003: 1553). Indeed, the need for active, independent boards has become conventional wisdom (OECD 2004: 49 and King 3 Report 2009: Chapter 5). Boards of directors should include a balance between EDs, NEDs and IDs argued (Krambia – Kapardis and Psaros 2006: 129). The basis of their argument is to avoid dominance from individuals or one set of directors, which will influence decisions that the board will take.

- **Banks Transparency**

During the 1990s in all the OECD countries, institutional investors increased their involvement in the administration of companies (activism) and started asking for a governance model that protects the interests of all shareholders argued (Bloommestein and Funke 2001 and OECD 2004:29 - 57). Transparency and accountability are the cornerstones of the emerging model (the non-Anglo-Saxon Model), which have assumed new and different meanings within this emerging global model of corporate governance. The causes of convergence in governance practices include the globalization of markets, where institutional investors insist on international norms of governance, especially in regard to transparency, reporting and the rights of minority shareholders argued (Nestor and Thompson 2000). Banks' operating practice needs to be made public especially, the lending practice, profit margins, investments and derivatives. The current financial crisis was caused by derivative trading argued interviewee 3

- **Shareholder Activism – Entrepreneurship**

There are matters typically requiring shareholders' action, which, by their very nature, should be approved by the board before submission to shareholders, which means board members and shareholders must have the necessary skills for them to make effective decisions (Koontz 1967: 75-6). Although shareholders can exercise their voting rights, in reality these rights are not only expensive to exercise but also to enforce and are susceptible to managerial interference by coercing shareholders to support them and concealing information from their opponents argued

(Pomeranz 1998: 25, Monks 2002 a and c, Shleifer and Vishny 1997).

- **Stewardship/Ubuntu**

The opportunistic self – interest assumption of agency theory, claiming that managers are motivated by "a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility, authority and thereby gain recognition from peers and bosses argued (Davis *et al* 1997: 20). This perspective was supported ... (Hugg 1998), Stiles and Taylor 2001) saying it recognizes a range of non-financial motives for managerial behaviour and it supports the active school theory, arguing that the strategic role of the board contributes to this overall stewardship of the company. Muth and Donaldson (1998) agree with above researchers saying that insider – dominated boards contribute a depth of knowledge, expertise and commitment to the firm which facilitates an active strategic role. Following this theory, the question is that why do we continue to have corporate scandals especially the current global financial crisis while Ubuntu and Stewardship provides otherwise? There is need to practice these theories in order to reduce the risk and bank failures.

- **Skills and experience**

The test of a first-rate intelligence is the ability to hold two opposing ideas in the mind at the same time, and still retain the ability to function argued (Fitzgerald 1936). The failure of a bank is an indication of directors not having Fitzgerald's "first-class intelligence" (SA and Zimbabwean banks: Document 2: Appendix 1). Many are scared and confused by idea of having to cope with uncertainty and instead crave certainty argued (Garratt 1996). Effective directors have to have a mindset that allows them to be comfortable handling high levels of uncertainty, while maintaining both their sense of direction and their moral stance. The learning board model developed by Garratt (2003) has proved effective in bringing directors from a rudimentary understanding of their roles, tasks and duties to becoming a more professional board as evidenced by the reduction of corporate failures in SA and Zimbabwe since 2006.

Private equity partnerships are primarily concerned with the strength of the management team of the respective company argued (Millson and Ward 2004: 81) which is a reflection of the requirement for skilled directors. Millson and Ward's indicate an overwhelmingly strong preference for an experienced board whose members have together achieved success and or who have previously worked in the same industry in which shareholders would want to invest. They also argued that investors strongly avoid companies where the board has little prior experience in the industry or technology. This argument supports the author's conceptual framework and answers the research question that board members need to be trained and accredited for them to be appointed to the board.

- **Systems, Culture and ethics**

The Anglo-Saxon Model is portrayed as a model in which owners are deeply separated from control. They sale their share "vote with their feet" if they are not comfortable with how the bank is being managed. This system needs to be replaced by the non-Anglo-Saxon Model where shareholder activism is high stated (Markarian *et al* 2007: 296). The combination of shareholder activism and Ubuntu will create strong transparent boards argued interviewees 4 and 5.

- **Internal controls**

The European Commission has been active in promoting the Audit Committee concept in order to create a fair internal market. They argued that Audit Committees have developed into essential committees of the boards of directors. In view of recent and current accounting scandals, special emphasis need to be placed on the Audit Committee with a view to fostering the key role it should play in the supervision of the audit function and reporting. Audit Committees are expected to have an important role in ensuring high standards in organizational reporting that underpin confidence in financial markets.

- **Regulatory framework**

The financial exuberance that arrived in the 1980s was halted in the market crash of 1987, and later high interest rates precipitated a series of high profile corporate collapses in 1991, including Robert Maxwell's MMC, Polly Peck and the BCCI, whose primary commercial activity turned out to be money laundering.

Public confidence and trust in the efficiency and reliability of the governing structures of industry was severely shaken in that each of these corporations received healthy audit reports shortly prior to their collapse (Clarke and Bostock, 1994). Consequent concerns included the standards of the audit and accountancy professions (Cadbury report 1992); the lack of accountability disclosure and transparency of boards to shareholders (Monks and Minow, 1991); concerns over the adequacy of board structures and processes (Lorsch and MacIver, 1989); the quality of directoral competencies; the apparent lack of corporate social responsibility; the destabilizing impact of the growth of merger and acquisition activities (Pound 1992: 83) the short - term basis of corporate performance (Gregg 1993: 2) the spate of business fraud; and the evident weakness of corporate self-regulation.

These problems were exacerbated by the development of more complex corporate structures and, as a result, modern company law was unable to keep pace with modern corporate reality (Hopt, 1984: 1338). As one of the greatest proponents of active corporate governance, Sir Adrian Cadbury's report published in (1992) was to have considerable influence not just in the UK, but in many other countries around the world that adopted similar corporate governance codes of practice with the inspiration of Cadbury, and in similar circumstances.

Further UK reforms of corporate governance followed the Cadbury code, with the Greenbury Report (1995) proposing guidelines for director remuneration; the Hampel Report (1998) focusing on disclosure and best practice; the Combined Code (1998) outlining a mandatory disclosure framework; and the Turnbull Report (1999) offering advice on compliance with mandatory disclosure. This was followed by a three year inquiry Modern Company Law

Review, which for the first time addressed the fundamentals of the reform of company law, which in the UK was particularly antiquated. However, any sense that universally improved standards of corporate governance were gradually bringing greater stability and security in international equity investments was abruptly dispelled by the looming Asian financial crisis 1998.

3.10 Critical Analysis of the literature

Four major theories have been discussed in the literature, [(Agency, Stiles and Taylor 2001: 371), (Stewardship, Muth and Donaldson 1998: 5), (Stakeholder, Gay 2002: 36) and (Ubuntu, Kwamwangamulu and Nkonko 1999: 27)]. Both Agency and Stewardship studies typically do not reflect the dynamics of governance – the interplay of power, conflict and ideology". However, the only theory which is not in line with the rest is the Agency theory. The other three are aligned in that they do not only look at monetary rewards but other factors like respect, co-existence, self-actualization to mention but a few.

Muth and Donaldson (1998:5), Gay (2002: 36) and Kwamwangamulu and Nkonko (1999: 27) argued that board structure should not be influence by agency costs but self-actualization and sense of belonging. The level of fraud and corporate failures will be reduced and the communities will benefit from strong good leadership. Board of directors will enjoy the respect from the communities in which they operate from. Respect is an important theme that directors need to earn through their conduct of business and way of reporting.

Transparency will reduce information asymmetry and improve flow of information from the banks to investors, other stakeholders and the corporate governance structures will improve as per the research question. Board independence will be a result of banks being transparent thereby reducing the levels of risk and shareholder value will always grow, hence creating shareholder value. Non alignment of rewards (agency theory) to societal contribution (stewardship and Ubuntu theories) separates the misalignment of agents and principals, resulting in the later theory being preferred by modern researchers (Section 2.4.2).

3.11 Summary of the literature review

NEDs and IDs have a fiduciary duty to formulate strategy, supervise, monitor and in addition have an advisory responsibility. Tricker (1994) referred these roles as “performance” and “conformance.” The performance roles refers to those roles that should contribute to the overall performance of the bank, include roles such as contributing know-how, expertise, and external information as well as networking, representing the bank and adding status.

The concept of Ubuntu is an important factor in how African people are brought up. The issues of respect, ownership, responsibility, values, social thinking, unity or consensus in decision-making, accountability to the society are critical as they cascade into the literature of management and governance. These values determine how directors behave, make decisions and how they manage resources of the bank in order to achieve competitive advantage.

The world needs a system of corporate governance that sets standards to maintain confidence in the system, but which nonetheless respects national traditions (Ubuntu), while permitting them to evolve under the influence of market forces. Doing business in another country, as well as investing in its firms, should not be a complex task. A certain set of minimum standards or "benchmarks" are required rather than a specific corporate governance system. This is applicable not only to the EU countries but even more to the Accession Countries (African and Asian countries), whose corporate governance systems are still relatively immature.

4 Methodology and Methods

4.1 Introduction

It is often stated that there are different kinds of research, depending on various dimensions such as those put forward by Ticehurst and Veal (2000), whose three dimensions of context, theme and methodology can be usefully applied to areas such as business research. The emphasis in business research is clearly one based mainly on praxis (field of study), it is therefore reasonable to expect approaches adopted within the business domain to be different from those, for example, in the purely academic domain. The differences might be quite fundamental or somewhat subtle (Figure 4.1), but nevertheless they lead to important differences in the respective approaches taken to address the particular research issues. The importance of adopting a suitable research approach is vital, as far as the contemporary manager is concerned, for ensuring comprehensive, valid and practical outcomes. Nevertheless, in any research, care must be taken to ensure that the approach followed is so structured as to provide a solid link between concepts and data (Punch 1998). Broadly speaking there are two main types of research paradigms (Easterby *et al*. 1991), namely:

- positivist or scientific
- non-positivist or phenomenological.

To proceed in collecting data, empirical research requires the linkage of practical indicators to concepts, and the epistemology of the research may use more than one approach or method (Punch 1998: 47) (Figure 4.1). There are various methods within each research domain but they broadly fall within two
categories:

- quantitative, which is generally numerical
- qualitative, which is mostly non-numerical

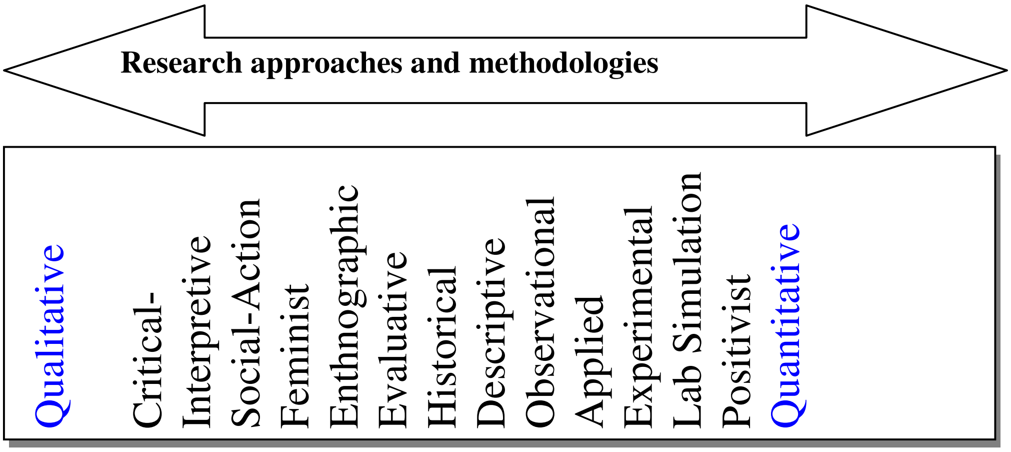


Figure 4-1: Source: Ticehurst and Veal (2000)

Qualitative or empirical, non-numeric, information is at one end of a continuum whilst numerical quantitative data is at the other. Separating these two methods in figure 4.1 are a number of alternate paradigms (Ticehurst and Veal 2000: 18). According to Cavana (2001), quantitative designs are generally associated with deductive or positivist research and qualitative design with inductive or non-positivist research. However, some overlap is becoming more common and acceptable (Page and Meyer 2000). Figure 4.1 provides a graphical representation of the research processes in the two domains.

Qualitative research, on the other hand, views humans as complex and unpredictable. That is, they are less stable than the physical world. Central to the idea of qualitative research is the development of a deep understanding of human behaviour to reveal people's values, interpretive schemes and belief systems (Cavana et al 2001).
Quantitative research is the classic scientific and experimental approach, which deals extensively with numbers in an objective fashion. It strives to

identify universal laws of nature in order that theories thus developed can be used to accurately explain and predict special phenomena. There are many other variations in between that form a continuum from one extreme to the other (Ticehurst and Veal 2000). The researcher used a variety of these methodologies in this research as per figure 4.1.

4.2 Chapter overview

Research design is a plan, structure and strategy of an investigation, prepared specifically to obtain answers to research questions (Kumar, 1998: 76). Chart 4.1 illustrate a chapter overview, explaining subsections and describing three research paradigms, while selecting and justifying the realism paradigm for this research. Section 4,3 discusses the philosophical basis of this research, giving different perspective by different researchers.

The rest of the chapter discusses the research design, justifying the use of the realism paradigm within a combined quantitative and qualitative research methodology. Research strategy and the assessment of the issues affecting the quality of this research are discussed at the near end of this chapter. Data collection methods is discussed on section 4.4, where the case selection, questionnaire design and data collection methodology are explained. Section 4.5 present methods used to analyse data, examine ethical considerations and explain limitations of the methodology.

4.2.1 Chapter Objectives and Structure

The objectives of this chapter are to:

- justify the use of a realism paradigm

- justify quantitative research methodology
- justify qualitative methodology
- discuss research strategy
- discuss research methodologies
- discuss research quality
- explain and review data analysis used
- identify ethical considerations and limitations of this study

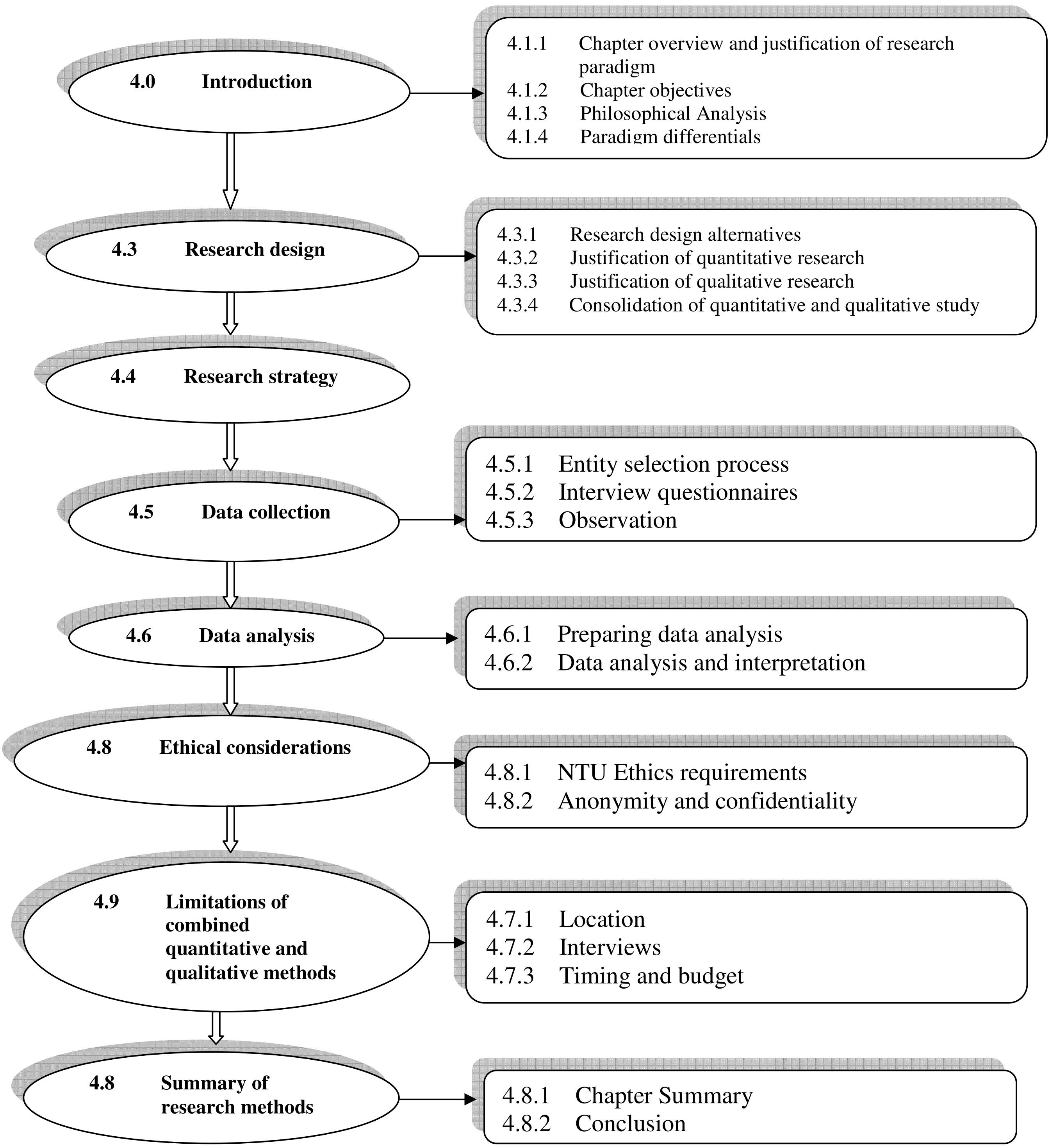


Figure 4-2: Source: Developed for this research – Methodology structure

4.2.2 The Research

The research information was used to establish the effectiveness and performance of different boards of directors. Tests were done to establish the associations, independency, transparency of directors and auditors and how they affect performance of the banks. Different methods were used to rank the effectiveness of directors in each category as indicated in document 3 and 4. As mentioned earlier the method had its own limitations as some of the required information could not be made available.

4.2.3 Philosophical Issues

The epistemological paradigms of interpretivism or phenomenology and positivism that constitute the philosophical poles of management research were the subject of considerable discussion in Document 3 and 4. However it should not be inferred from this document's being based on both qualitative and quantitative research methods that the author, though not being hermeneutically inclined, has assumed a positivist stance in its commission. The investigative processes reported here do indeed involve the establishment of theories and the construction of hypothesis that amount to the "*normal process under a positivist paradigm"* (Collis and Hussey, 2003: 56) but as (Jankowicz 2005: 122) cautions:

> "*it is very important not to confuse* […] *two distinctions: that between positivist versus interpretivist ontology and epistemology on the one hand and between qualitative versus quantitative on the other."*

According to (Collins and Hussey 2003: 47) there is '*considerable blurring'* between the positivist and interpretive philosophies. The same authors went on to contend that,

> '*the positivist and phenomenological paradigms are two extremes and very few people would operate within their pure forms. There are* […] *not just two paradigms but a whole range.'* (Collis and Hussey, 2003: 51), hence the author chose the phenomenological paradigms.

Within this range is the stance to which the author intuitively leans, that of realism. The adopting of this position is not based on a desire to 'cop out' by evading the extremes, like voting the DA as an alternative to ANC and SACP, but on the inherent nature of the realist position.

Realism, suggests (Fisher 2004: 15):

> "*retains many of the ambitions of positivism but recognizes, and comes to terms with, the subjective nature of research and the inevitable role of values in it. Realism still aims to be scientific but makes fewer claims to knowledge that perfectly mirrors the objects of study."*

According to (Saunders *et al*. 2003: 85) realism:

> "*shares some philosophical aspects with positivism* [but] *also recognizes that people themselves are not objects to be studied in the style of natural science.* [It] *recognizes the importance of* […] *subjective reality* [in] *seeking to understand broader social forces, structures of processes."*

(Bryman and Bell 2003: 15) argues that,

> *"realism shares […] two features with positivism [empirical and critical realism]: a belief that the natural and social sciences can and should apply the same [kinds] of approach to collection of data and to explanation, and a commitment to the view that there is an external reality to which scientists direct their attention (in other words, there is a reality that is separate from our description of it)."*

These authors argue that realist philosophy is by no means unusual in management research, which they suggest is

> "*often a mixture between positivist and interpretivist, perhaps reflecting the stance of realism.*" *"Epistemological realist believes that universals have a reality that [is] independent of how people talk about them"* Argued (Saunders *et al*., 2003: 85). (Fisher 2004: 218). It is within this context that the researcher took an independent view on factors that affect corporate governance and the behaviour of directors.

The researcher took this stance after recognizing that corporate governance and strategy cannot be measured and studied in the same way as can physical and chemical processes. In establishing this stance the author was somewhat taken aback by (Jankowicz's 2005: 110) bald assertion that '[p]*ositivism is realist,'* Reading on it seemed that he was using the term to reflect the ontological basis of positivism, viz. a *reality* of truths that exist independently and are discoverable by anyone adopting a given analytical procedure. This contrasts with the sense in which the author had understood the use of realism, namely that it conveys the importance of being realistic in seeking knowledge about complex organizational entities and contexts.

Easterby-Smith *et al.* (2002: 32) used realism in contradistinction to relativism in terms of the ontological basis of the positivist epistemology of science. They define traditional realism as the stance holding that,

> "*the world is concrete and external, and* […] *science can only progress through observations that have a direct correspondence to the phenomena being investigated."*

Their applying the contrasting position of relativism to social science seems to cover the same terrain as the descriptions of realism previously cited, to the point of implicit synonymity. They describe critical realism, which according to (Fisher 2004: 16), "*shares the ambitions of realism"* as a *'variant of the relativist position'* (Easterby-Smith *et al.* 2002: 33). For (Easterby-Smith *et al* 2002: 33), the subjectivity of knowledge is inherent in the relativist stance; according to them adherents of the position regard facts as '*depend*ing *on* the *viewpoint of the observer.'* The methodological implications of relativism are that:

> '*the assumed difficulty of gaining direct access to* 'reality' *means that multiple perspectives will normally be adopted, both through* 'triangulation' *of methods and through surveying viewpoints and experiences of large sample of individuals.'* (Easterby-Smith et al., 2002: 34)

It is within the philosophical framework of realism/relativism that this stage of the project was launched. It appears to offer substantial congruence between the outlook of the researcher and the sphere to be researched.

4.3 Research design

Once the research objectives are defined, the research design can be planned argued (Cavana *et al* 2001) figure 4.3. In Chapter 3 a conceptual framework was developed and mechanisms identified to find solution for the corporate governance problem at hand. Chapter 4, examines the elements of the research design to demonstrate how data was gathered and analysed (Sekaran 2003: 117).

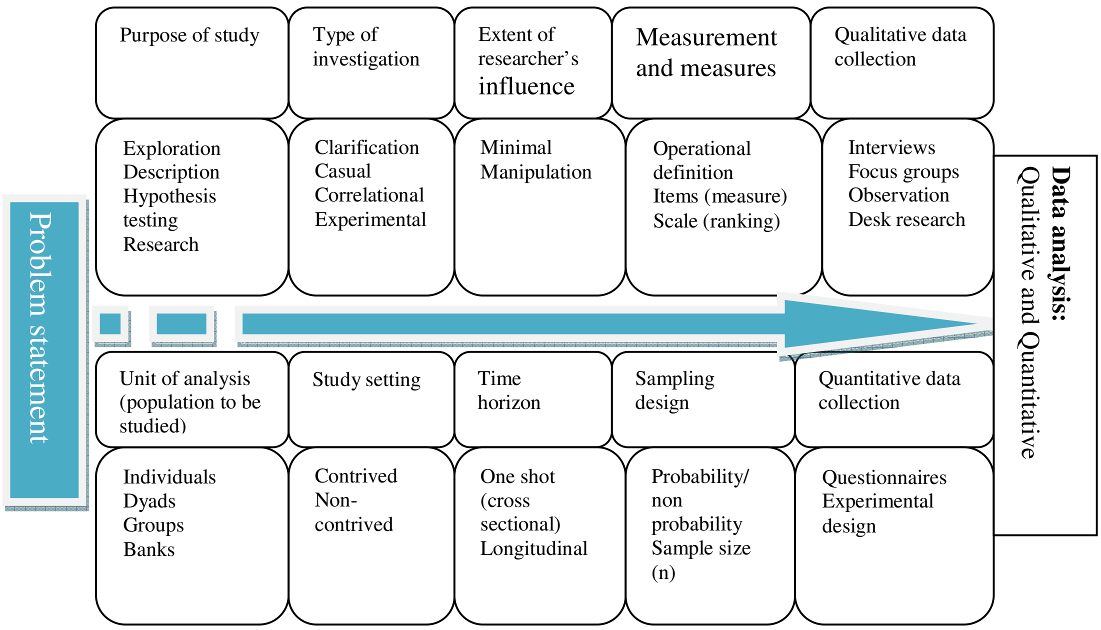


Figure 4-3: Source: Cavana et al (2001: 107)

Research is defined by Clover and Balsley (1974: 1) as "the process of methodically obtaining accurate answers to significant questions by the use of scientific and systematic gathering and interpreting information." As the outcome of any study is influenced by the choice of research design, determining the characteristics are a significant factor in the quality of the conclusion argued (Miller and Salkind 2002: 18). The nature of information to be gathered was both quantitative (the performance of different banks) and qualitative (relating to the level of board experience).

4.3.1 Research Design Alternatives

Social phenomena are generally complex, therefore choosing the right design for a research project is vital when looking for answers to research questions and controlling relevant variables. How the study goes about answering the questions will determine the outcome of the study and “the more variability, the more likely differences between groups will be detected,” argued (Miller and Salkind 2002:19). Research design is a master plan which specifies the methods and procedures for collecting and analysing data argued (Zikmund 1997: 48). There are three main types of research: exploratory, descriptive and explanatory or casual. The nature of research is a consequence of the type of or combination of studies to be carried out argued (Cavana *et al* 2001).

Exploratory research is, “initial research conducted to clarify and define the nature of the problem” argued (Zikmund 1997: 37). Exploratory studies are a “valuable means of finding out what is happening and gaining insights to assess phenomena in a new light” argued (Saunders et al 2000: 97). This research does not look for conclusive evidence to determine a course of action. Rather an indication was sought, that by examining the contribution IDs and NEDs make and their effectiveness.

Descriptive research is “designed to describe the characteristics of a population or phenomena” (Zikmund 1997: 38). The objective is "to portray an accurate profile of a person, events and situations" (Saunders *et al* 2000: 97). This is often carried out to describe characteristics of groups within an organization or community (Sekaran 2003: 121).

Explanatory or casual research establishes that an activity occurs as a direct consequence of a particular activity (Zikmund 1997: 40). This type of study is carried out to explain the nature of relationships between variables (Saunders et al 2000: 98) or establish differences amongst, or the independence of two or more factors in a situation (Sekaran 2003: 124). In this research, the relationship of variables considered, was the association matrix of directors and how they affect their effectiveness and independence. Thus the type of research carried out was both exploratory and descriptive.

4.3.2 Justification of Qualitative Research

The mid-18th century historian Grambattista Vico introduced the concept of a qualitative approach to research. Vico wrote that "only people can understand people and they do this through a faculty called intuitive understanding" (McDaniel and Gates 1993: 187). To identify the assumptions of qualitative research (Cavana et al 2001: 133-4_ cited work of Maykut and Morehouse (1994), where they differ from the traditional positivist assumptions. First, qualitative research emphasises understanding people and taking a perspective stance, rather than making statistical assumptions. Second, the aim is to discover patterns of behaviour, which cannot be investigated through positivist methods. The technique's aim is to "come to terms with the meaning rather than the frequency of more or less naturally occurring phenomenon (Ticehurst and Veal 2000: 94). The emphasis is on directors' interpretations of their environments, and others' behaviour argued (Bryman 1989: 29).

In this research, a qualitative approach was incorporated into research to determine qualitative issues of governance, perceptions, attitudes, culture, feelings and motivations (document 3) towards performances of banks. This study was not only carried out to identify and quantify what happens behind the boardroom door, but to establish and understand the conduct, behaviour, attitudes, requirements of an effective board. The South African Generally Accepted Accounting Standards requires each bank to disclose qualitative performance information. This includes environmental and corporate social responsibility information. In addition the qualitative information seeks to develop knowledge by "linking the accounts people give to an underlying body of theory" (Jankowicz 1995: 173).

4.3.3 Justification of Quantitative Research

Much research involves data that are quantifiable to assist in answering research questions in producing a research strategy (quantitative data) stated (Saunders *et al* 2000: 326). It is a set of constructs, definitions and propositions presenting systematic views of phenomena specifying relationships between construct explaining phenomena (Creswell 1994: 82). Some of the models used to define board member relationships included among others the Logistic regression, regression analysis and co-efficient of variation. These models assist in explaining the relationship between board members and bank performance and testing the strength or weakness of the relationship. The intent of this research was to relate contributions, relationships of IDs, NEDs to the performance and success of banks. Variables in the Conceptual Framework above, developed from different models in the literature review were incorporated into the interviews to work within deductive methodology of this research.

The formula for calculating the logistic regression is as on Formula 2. The 'input' is z and the 'output' is *f(z).* The variable z represents the exposure to some set of independent variables, while *f(z)* represents the probability of a particular outcome, given that the set of explanatory variables. The variable z is a measure of total contribution of all the independent variables used in the model.

$$f(z) = \frac{e^z}{e^z + 1} = \frac{1}{1 + e^{-z}}$$

Formula 2: Logistic regression formula

4.3.4 Consolidation of Qualitative and Quantitative Research

Combined approaches within the same piece of work may be possible and often advantageous to researchers argued (Saunders *et al* 2000: 90). Table 4.4 summarises some of the major differences between deductive and inductive approaches to research.

This combined study uses deductive positive approach, collecting secondary data (financial statements) to form a theory and develop themes to test. There are four major reasons for using combined qualitative and quantitative methodologies. First, address the studies within the realism paradigm, explaining theory construction and building, rather than testing and verification. Second, (develop deeply into the problem) to gain an understanding of the phenomenon (Perry et al 1999: 10-22). To achieve this, a rigorously tested theory is developed, concluding in deduction of an issue between two or more events which may be tested and modified if required as well as inductive theory building through interviews and data analysis argued (Saunders et al 2000: 78-88).

Qualitative emphasises	Quantitative emphasises
Gaining an understanding of the meanings humans attach to events	Scientific principles
A close understanding of research context	Moving from theory to data
The collection of qualitative data	The need to explain causal relationships and association matrix between variables (regression analysis)
	The collection of quantitative data
	The application of controls to ensure validity of data
	The operating of concepts to ensure clarity of definition
A more flexible structure to permit changes of research emphasis as the research	A highly structured approach

Qualitative emphasises	Quantitative emphasises
progresses	
A realisation that the researcher is part of the research process	Researcher independent of what is being researched
Less concerned with the need to generalise	The necessity to select samples of sufficient size in order to generalise conclusions

Figure 4-4: Source: Saunders et al (2000: 91)

Third, the construction of theory builds, so that the association matrix identified are categorised with the goal being isolated and precise definitions of categories determine these associations. Finally, this research deals with a field that has been previously overlooked, where researchers have focused on other fields of management argued (Saunders 2000: 78-88). This approach suites this type of research as both qualitative and quantitative themes affect the performance of banks. A combination study (document 3 and 4), where each bank was individually the object of study including multiple sources of information are used as instruments to illustrate these themes (Miller and Salkind 2002: 162). Using a realism paradigm is thus justifiably suitable for this research. The problem covers, “how, why, who, what and where” questions over contemporary events (Yin 1994, Saunders et al 2000) requiring little or no control over behaviour of directors or events as illustrated by figure 4.5.

Propositions / Research methodology	Focuses on contemporary events?		Control over behavioural event required?		Type of research problem				
	Yes	No	Yes	No	How	Why	Who	What	Where
Combined Qualitative and Quantitative	✓			✓	✓	✓	✓	✓	✓

Figure 4-5: Source: Developed from Yin (1994)

4.3.5 Research Methods Justification

The methods chosen to carry out this study were interview based, survey, use of literature and documentary evidence as appropriate. Because of the number of issues raised by the research questions and the need to associate them with current corporate governance practice in SA and Zimbabwe. The researcher decided to conduct an action research as it complements and "puts flesh on the bones" of a survey (Bell, 1987: 11), adding an important third dimension – actual practice – to theory and figures (financial performance). There was need for the researcher to participate in the governance process of the banks by attending some of the board meetings and strategy sessions.

The study attempts to identify the gaps that exist in the corporate governance field in SA and Zimbabwe. This will be benchmarked by progress made in other countries, for example, US, UK and other developed nations. In order to do this exploration, data was collected and assimilated from formal and informal observation, field notes, vignettes and reference to profiles, market and financial reports.

The primary data will be annual financial statements for all the four major banks for the period 2002 to 2006. Market analysis reports and research by different corporate governance researchers will be used in this research. The survey is described by Edwards & Talbot (1999: 88) as being like an onion, with data from questionnaires similar to peeling off some outer layers of skin, but being supplemented by interviews to get to the in-depth layers. The study, has provided the core on to which others build layers of data, the survey seemed a useful method to adopt to complement it.

Bell (1987: 13) has suggested that a representative selection of the population can be targeted by a survey, which was the intention when the author developed the research questions. Questionnaire one targeted the financial performance of all the major four banks and their subsidiaries in SA and Zimbabwe, of which the source of the data was the financial statements. Questionnaire two looked at qualitative information, especially on reporting independence, skills level, shareholder activism and transparency. Questionnaire three targeted at analysing the gap that exist between board expected performance and actual performance.

Interviews were carried out, and the respondents were mostly NEDs, IDs, Chiefs and corporate governance practitioners. These interviews were semi-structured to allow some comparable data to be collected, but also to allow the individual interviewee some freedom to expand on points as they chose and elaborate on their specialist interest.

4.4 Data Collection

The examination of type and sources of data for realism methodology is necessary. Saunders et al (2000: 224) cited categorises defined by Delbridge and Kirkpatrick (1994), by types of data generated through participants as primary, secondary and experiential. Primary observations are those activities noted as they happen. They are data specifically collected in research where researcher is the primary user (Ticehurst and Veal 2000: 82), called first-hand collection of data for a specific purpose. This is information from focus groups or respondents relating to the study, whose opinions on the topic are sought. A recorder was used to collect data from respondents then send to a company outsourced to transcribe the data into text.

Secondary data are sources in existence, such as company records, government publications or academic papers (Sekaran 2003: 219). Secondary data could also be collected from earlier primary research, but may be used a second time in current research. For this research, it was possible to approach data not fully exploited by original collectors of the data and from a different aspect. Experiential data are observations and feelings of the observer (Saunders et al 2000: 225). These experiential factors may be collected as a result of observations with multiple participants (Cavana et al 2001). An important factor in choosing a data collection method is dependent on the level of personal involvement of the researcher, rather than a desire to produce qualitative or quantitative data (McNeill 1986: 113).

4.4.1 Banks Selection Process

In this research, the unit of analysis was the bank and events that followed since 2002 to 2006 and subsequent events leading to the current global financial crisis. Collected data came from four major banks as a result of a consolidated qualitative (document 3) and quantitative (document 4) studies and the product was analysed together with information from secondary and experiential data to offer some conclusions on the performance of the four banks. Case studies should be evaluated in terms of adequacy of theoretical inferences generated and tested against comparable contexts argued (Yin 1994 and Bryman 1989: 170). Most combined qualitative and quantitative study involves more than one method of data collection argued (Bryman 1989: 175). Post research events including the current financial crisis and its impact to SA and Zimbabwe are some of the new positive developments that affect the findings of this research. Although the researcher at the time of this research was employed by one of the banks, his objective was not affected due to academic independence. More so most of the information used in this research was quantitative published financial statements which the researcher could not manipulate.

In order to ensure the research was valid, reliable and relevant, it was necessary to develop a sampling strategy for the choice of a good cross-section from corporate governance practitioners, board members and other stakeholders. The sample population was divided into clusters according to the position of the director and his/her background, which are, CEOs, CFOs, NEDs, IDs

EDs, Company Secretaries, lawyers, Economists, Market Analysts, Central Bank Governors and their Deputies.

4.4.2 Interview Questionnaire Design

A well designed questionnaire will provide accurate and usable data argued (Cavana et al 2001: 226). To maximize the potential to provide accurate and usable data, the questionnaires were designed using three principles: careful questionnaire wording, applying categorisation, scaling, coding of the responses and overall appearance of the questionnaire was of the highest quality (Cavana et al 2001: 227, Sekaran 2003: 237). These three aspects, illustrated on figure 4.6 show the breakdown of the process. The purpose of each question considered the adequate measurement of that variable. The type and form of question depended on whether the information related to a research objective variable, skills, experience, independence and other perceptions (Chart 3.3: Inputs).

The interview questions were in two parts, those set for board members (EDs, IDs and NEDs) of a particular bank, and the second part was for practitioners, Market Analysts and Economists (Chart 3.3: Mechanisms). In order to achieve the research objectives, the design of the interview instrument questionnaires considered all aspects of the research problem.

The primary data collection mechanism in this research was an interview instrument. The design was essential to isolate competency-skills taught and method of delivery by the first population (EDs, IDs, NEDs and Auditors) and address issues noted in figure 4.6 and the outcomes (Chart 3.3: Outcomes). It was necessary to identify how each bank practices the governance processes before embarking on the second stage of interviewing practitioners, Analysts, Lawyers and Economists. The questions were very clear and unambiguous, the type and form of questions endeavoured to give the clearest answer. In general open-ended questions were used which made it very difficult to code, but more information was collected as respondents were not limited to yes and no answers.

The sequence of questions, were devised to cross check emotive answers for consistency and in order to assist the respondents progress through the questionnaire with ease and comfort (Sekaran 2003:243). Figure 4.6 concerns the principles of measurement that ensures the data collected are appropriate to test the issues (Cavan et al 2001: 234). The researcher personally collected all the data and was involved in every instance, thus whilst no details were left out.

Principles of the Questionnaire design

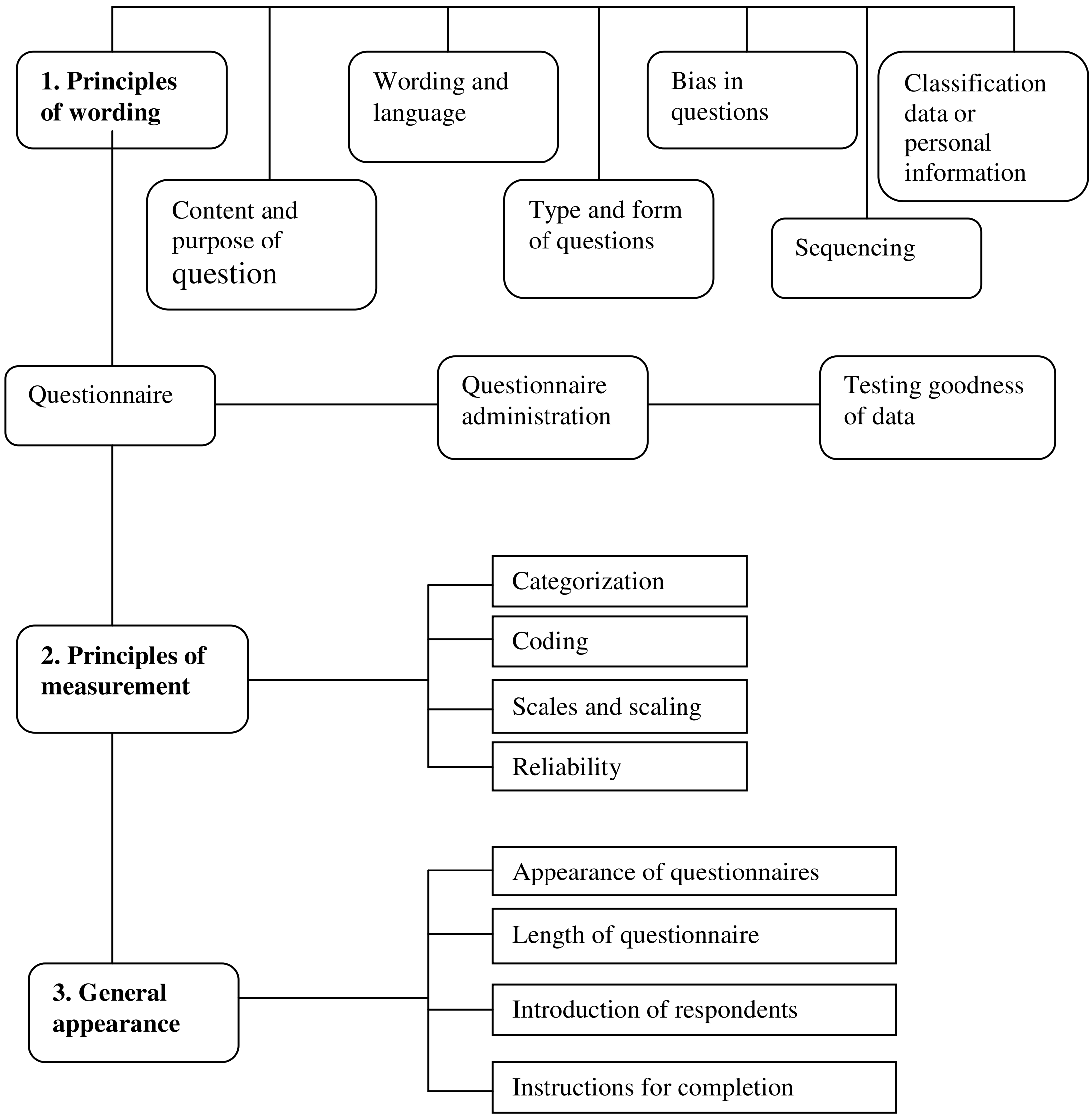


Figure 4-6: Source: Cavana et al (2001: 238) – Questionnaire design

4.5 Data (qualitative and quantitative) analysis

Data analysis was completed in series of steps (Creswell 1994: 122) and is explained in detail in figure 4.7 (Siegel 1997: 515). These steps were first preparing for analysis, getting a feel for the data, testing “goodness” of data and testing the themes (figure 4.7), (Sekaran 2003: 301). The results have been presented in a table form indicating information as output, thus familiarising the researcher with recorded data (Jankowicz 1995: 190).

From the beginning of the study, four banks were selected as a representative sample of the financial sector in SA and Zimbabwe. Within the banks 32 respondents were identified together with four corporate governance practitioners. All the interviewees were available for interviews during the research period of this document unlike during the first four documents. Performance data on these four banks were sought through the collect of all annual financial statements for the period 2002 to 2006 focusing on performance and corporate governance processes of each bank.

In order to take account of the time lags between previous board practice and subsequent boards and bank performance, the proportionate changes in CFROTA and sales after each year were calculated relating back to the base year 2002. The formula used was:

$$\textbf{\% Change} = \frac{\textbf{Performance in year X} - \textbf{Performance in 2002}}{\textbf{Performance in 2002}} \textbf{ X 100}$$

Formula 3: Proportionate changes in CFROTA

A factor analysis was then conducted on these variables (Appendix 1 to 4, 7, 8, 9 and Section 5.3), which produced a clear separation between CFROTA and accounting figures that produce ROE ratio. These factors were used in all the analysis of the bank performance to reflect the various changes over the five year period.

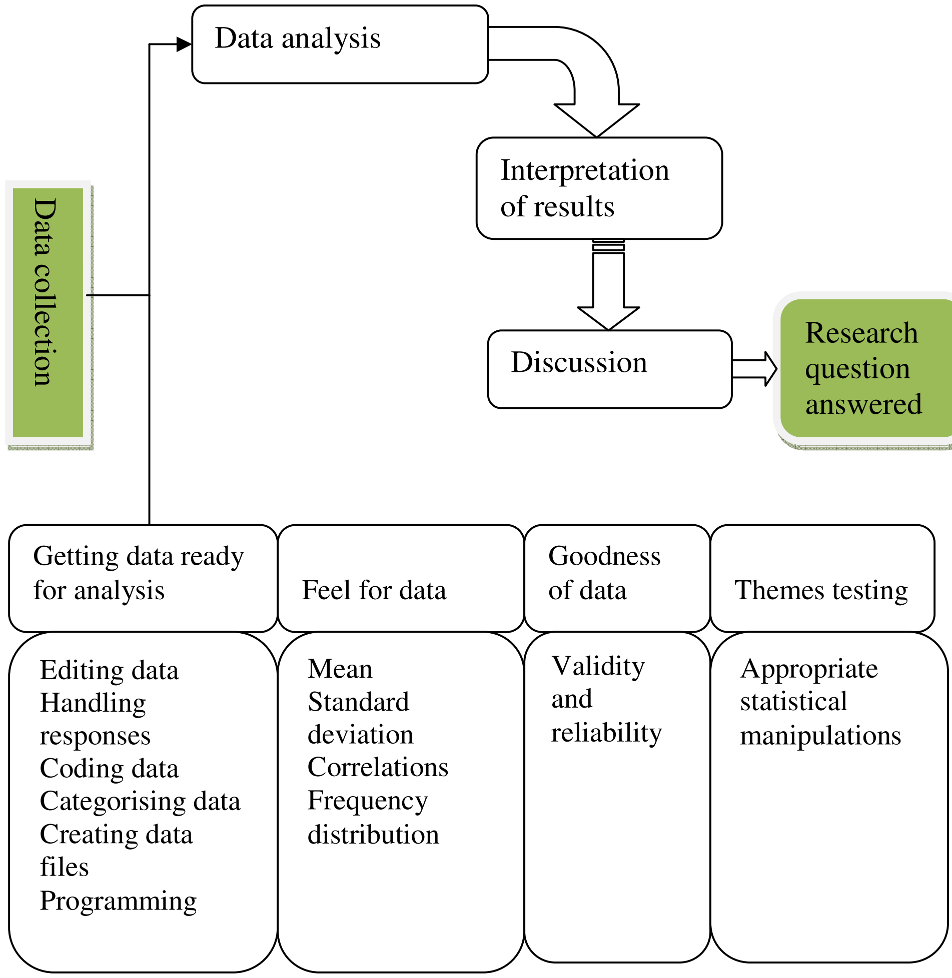


Figure 4-7: Source: Sekaran (2003: 301) – Data analysis

Analysis of financial statements was conducted using excel and SPSS version 10. The standardised variable option was used to standardise the aggregate indicator ratings and principal components analysis of "Varimax rotation" was the method of factor analysis used for the calculations (Appendix 7). Pearson correlation coefficients (DeFusco et al 2004: 146) were computed to relate board and bank performance data and t – tests were applied to compare differences between categorical board performances in high and low performing banks. Figure 4.7 is a flow diagram showing steps taken before data is analysed to test the themes. Step one prepares data for analysis whilst steps two to four cover analysing data.

This analysis is rooted in deductive, qualitative approach. The object is to express the world as it is understood by the subject (Saunders et al., 2000: 95). In this study, the observations come from the questionnaire and the opinions of the participants/respondents.

Quantitative survey analysis may be considered in two distinct groups, categorical and quantifiable (Saunders et al., 2000: 328). Categorical data cannot be measured, but can be classified or ranked. In this study, the types of banks, board members, qualifications and experience of respondents are categorised. This data can be further sub-divided into descriptive (or nominal) and ranked (or ordinal) (Saunders et al., 2000: 328). Quantifiable data are those that may be numerically measured, such as percentages (cost to income ratio, profit margin, CFROTA, etc. These offer continuously quantifiable data. Discrete data can be measured precisely, such as the behaviour of IDs, NEDs and Auditors.

4.5.1 Preparing Data for Analysis

It may be seen by bank questionnaire (Appendix 5) and respondent profile (Appendix 6), that to ensure analysis was straightforward, consequences of coding were considered at the time the questionnaire was being formulated (Sekaran, 2003: 305). For example, each bank respondent as prefixed by the name of the bank followed by numbers. To verify consistency, the questionnaire scattered contiguous questions in different areas of the questionnaire. The answers were then consolidated and analysed together to confirm or rebuff the responses offered in the questionnaire. After collection, the data is keyed into the analysis program and to achieve this, all the stages of figure 4.7 are actioned (Sekaran, 2003: 302).

4.5.2 Data Analysis and Interpretation

The three objectives of data analysis noted in figure 4.7, are expanded below, step 2 (getting a feel for the data), step 3 (testing for goodness of data) and step 4 (testing the issues developed for the research). Data analysis is the application of logic to understand and interpret data collected (Zikmund, 1997: 57). In this research IDs, NEDs, EDs, CG practitioners and Market Analysts were surveyed to establish a connection between behaviour and independency of directors. A multivariate analysis design, which allows the simultaneous investigation of more than two variables (behaviour and independency) (Zikmund, 1997: 657), was chosen to analyse the data. SPSS (version 11), statistical analysis tools were used to test the assumptions and analyse data, (Coakes & Steed, 1999).

Getting a feel for the data

When analysing the relationships and behaviour of board members the researcher had to calculate the mean of the data and variance, regression, logistic regression, this presented an overview of how the participants responded to each question. The information gained from these ratios showed that the scales were sufficiently graded to give a significant result (Sekaran, 2003: 306).

Testing for goodness of data

Goodness of data is tested for reliability and validity as noted in section 4.5. In this research, convergent validity, which establishes the degree of correlation in the results and discriminatory validity establishes when two different concept are not correlated and do not converge (Cavana et al., 2001: 321) was used. Once the initial feel showed that the information was credible, the goodness of fit was established to lend credibility to the succeeding analyses and findings (Sekaran, 2003). The test was to determine ‘how well an observed set of data fits an expected set of data’ (Mason & Lind, 1996: 576).

Testing the issues developed for the research

Finally, once the data was sorted and the goodness of measure established, it was possible to test the issues through the use of the SPSS software as noted in 4.5 (Sekaran, 2003).

4.5.3 Use of computer software

There are a number of qualitative data analysis programs available – such as ATLAS/ti, NUD*IST, and SPSS (Ticehurst & Veal, 2000). They store, organise and process data and it was necessary to choose the most suitable for the study in question. Because of the amount of data, a statistical package was useful to analyse the data. From the programs noted, Non-numerical

Unstructured Data Indexing, Search and Theorising (NUD*IST) was the qualitative package used, whilst Statistical Package for the Social Sciences (SPSS) was used for analysing survey data (Ticehurst & Veal, 2000). SPSS was chosen to analyse data for this research survey. However, whilst the SPSS program was used to seek patterns within the data, as there were only a relatively small number of cases, in order for the richness and depth of meaning to be extrapolated, additional software was not considered necessary.

4.6 Ethical considerations

Nottingham Business School's Ethics Committee reviews research surveys to protect the individual, the institution and collective welfare and rights of participants. In addition committees protect Universities and researchers from inadvertent moral or legal risks by considering the principles of respect for persons, beneficence, and justice (Weatherby, 2003).

In this research, individual answers or scores were of relevance, for the analysis of each bank as each interview was an event which affects the whole bank and the researcher ensured the anonymous nature of the surveys (where the respondent did not require his/her disclosure), thus ensuring that there were no ethical considerations to consider. In addition, participants had the rationale of the survey explained and were able to cease their participation at any time without reason.

4.6.1 NBS Graduate Research - Ethics requirements

The Ethics Committee of NBS is advised that respondents considered the anonymity of the survey and that participants agreed that their names be disclosed. Section 1.9 of the National Statement provides for consent in the form of the returned survey questionnaire. The information implies consent to use the data in the research project as:

"Where consent to participate is required, research must be so designed that each participant's consent is clearly established, whether by a signed form, return of a survey, recorded agreement for interview or other sufficient means".

4.6.2 Anonymity and confidentiality

All participants were selected by the researcher among each bank directors, practitioners and market analysts. The researcher informed all participants about the survey individually. The survey was not anonymous, as all participants were willing to contribute to this research as they felt that not much research has been done in Africa in this field. Only interested parties took part in the surveys as some selected directors declined to participate. The researcher relied on two guidelines found in the National Statement on Ethical Conduct in Research Involving Humans to design the research with informed consent assumed from the filling out of the survey form.

1. Participants were told that completion of the survey means that data will be used in the study.

2. All individuals were identified in a proper manner as they all choose to be identified.

There were no potential risks (emotional, physical, economic, privacy, legal) envisaged for the participants. There were also no risks, harms, stresses, discomfort or other matters likely to affect the participants as this field is not yet well researched in Africa.

4.7 Limitations of combined quantitative and qualitative study methodology

Formulation of a research strategy requires judgement, particularly in view of the use of resources. Full consideration is given both to the data and its analysis (Ticehurst & Veal, 2000: 38-39). The limitations resulted from the choice of strategy are offered not to diminish the quality of the research, but to indicate the significance of the methodology (Cooper & Schindler, 2001: 616). In this research, the conclusions are valid and assessable within their boundaries.

4.7.1 Location

Using qualitative research studies in Africa is very difficult due to travel arrangements, where some locations do not have flights. However interviews were made easier due to availability of video conference and tele-communication facilities. In addition, the research method enabled detailed information from multiple sources, which allowed collection of in depth verifiable evidence (Cooper & Schindler, 2001: 138).

4.7.2 Timing

Information gathered for research was to assess the effectiveness and performance of the four boards of directors of the selected banks and data was collected over a period of five years (2002 – 2006). Application of independence and transparency was also assessed. Conditions may change over time since 2006.

4.7.3 Time and budget

The researcher had a small budget and had to do all the interviews personally within a limited timeframe. The result meant that whilst all participants had an equal opportunity to attend interviews and answer the questionnaires, a limit of the number of participants was set to enable the researcher to work within a set time frame.

4.8 Summary

Chapter 4 considered aspects of methodology used in this research and consequently justified each aspect of the study, which investigated the effectiveness of the boards of directors of the four major banks in SA and Zimbabwe. The realism paradigm incorporated a triangulation of research methods to create knowledge about external reality (Perry et al., 1999). In the study, the type of research used was a combination of exploratory and descriptive research to clarify and define the nature of the problem and to describe the characteristics of a population (Zikmund, 1997). Due to the nature of the deductive testing, the researcher used both qualitative and quantitative methods, with surveys conducted in two different countries through observation, surveys, and interviews with valid, reliable and practical results using a cross - section of individuals in the banks and analysts. Thus, the qualitative study methodology used a realism paradigm with an in-depth quantitative survey on two populations covering all active variables and operational constructs.

The mixture of theory and data requires a critical analysis, which requires methodologies that unpack the norm. Practical experience implies that, whereas positivists take the view those scientists conceptualization of reality actually directly reflects that reality, realists argue that the scientists' conceptualization is simply a way of knowing that reality. The chosen methods are a systematic attempt to express in thought the structures and ways of acting of things that exist and act independently of thought.

5 Data analysis

Chapter 4 outlined the research project design and techniques used to collect and analyse data. The data collection methodology was a combination of a quantitative survey instrument and a qualitative study protocol. The technique employed was considered to support statistical data analysis, for a methodology appropriate for analysing banks performance.

In chapter 5, data from the research instruments are analysed to determine results relating to the research questions, data quality and the effectiveness of the board of each bank as measured by the qualitative and quantitative data provided by the respondents. Chapter 5 is divided into four parts that is the performance of each bank (ABSA, FNB, Nedbank and Standard Bank including their subsidiaries in SA and Zimbabwe) is analysed.

Data was interpreted using the chi-square test (Wegner 2008: 359 – 372, Buglear 2007: 279 - 304) to test for differences between categorical variables using cross tabulation techniques to check differing percentages for significant differences between banks using 7- point Likert scale questions (Appendices 7 to 9) (Wegner 2008: 22). Tools such as Laspeyres price index, mean and coefficient of variation (DeFusco et al 2004, Newbold 1991) were used to analyse the growth and price of shareholder values. Interviewee 19 stated that numbers are all we have to work with; we should constantly remind ourselves that they do not paint a perfect picture (Fraser – Sampson 2007: 2). This argument support the argument that financial statements have been an aid to corporate scandals and fraud as they can be engineered to reflect what the preparer want to report on (information asymmetry) argued interviewee 34. Time series (regression trend coefficients) regression and correlation are the tools used to interpret the relationship that exists in the boards and the performance of banks.

Financial ratios are used to compare risk and return of different banks in order to help equity investors and creditors make intelligent investment and credit decisions (White et al 2003: 111). Such decisions require both an evaluation of changes in performance over time for a particular investment and a comparison among all firms within a single industry at a specific point in time. The information needs and appropriate analytical techniques used for investment and credit decisions depend on the decision maker’s time horizon. Equity investors are interested in the long term earning power of a firm. As the equity investor bears the residual risk (defined as the return from operations after all claims from suppliers, employees and creditors have been satisfied), it requires a return commensurate to that risk. Thus, analysis by the equity investor needs to be the most comprehensive and it subsumes the analysis carried out by other users, hence investors need to use different methods to measure future cash flow return, growth and future value creation capability of the company, which is why this chapter analysis the financial performance of the four banks.

5.1 Research Findings

Secondary data was used in this research (published financial statements) as they became the primary source of information. In analysing the financial statements, using CFROTA and other tools, the Financial Directors were the main contacts and respondents to the researcher’s questions (Appendix 1 to 4). Muth and Donaldson’s (1998: 5 – 28) concepts used in document 4 were also used in this document together with CFROTA by Dulewicz and Herbert (2004: 265) in order to compare and contrast the two concepts as to which one is the best way of measuring board effectiveness. The two models (CFROTA and ROCE) were tested and the results are reflected in document 4 Table 5.3.1 and document 5 Table 10. The philosophy that, “profit is an opinion and cash is a fact,” was tested during the research and was found out that CFROTA is a better measurement of growth of cash and value measurement out of the two models. The weakness though is that CFROTA does not take into account working capital and capital expenditure requirements of each bank.

5.1.1 Re-interpretation of earlier findings

Corporate governance has assumed an increasingly important place in the banking industry. The board as an ultimate decision making body, as they formulate the strategies but cannot be linked to corporate performance although they take the overall responsibility for the bank's performance argued interviewee 36. Observations during the research period indicated that skills and experience were found to be critical for the success of the bank and shareholder confidence. Document 3: 54, highlighted the associations that exist within the CG field and the impact they have on transparency and independence. The scramble for scarce resources and self-enrichment were found to be the major factors affecting the governance system in the financial sector in SA and Zimbabwe. The independence of Auditors and IDs is very important for the bank's compliance with CG best practice (Minor 199).

The shareholding perspective as an orthodox and dominant approach to the understanding of corporate governance has its ideological and theoretical origin in the fundamental mentality of individual private ownership rights as the foundation of capitalism. Traditional wisdom is that private ownership is fundamental to a desirable social order and to development of an efficient economy and thus private ownership rights are inviolable to corporate governance. This belief was the major cause of bank failures as owners operated banks as personal private business, which resulted in the banks failing to reach the maturity levels, hence collapse as a family owned bank. Abusive insider trading and related party transactions were the major causes of these failures both in SA and Zimbabwe stated interviewee 38 (Document 2: Appendix 1).

The themes discussed so far indicates that the role of the board is instrumental in good corporate governance as per requirements of Minor (1999) and King III Report (2009). The task is characterized by the pressure of responsibility, limited time and distance from operations of the bank, which the board is set to direct and control. Board appraisals are prescribed by the King III Report (2009), Principles for CG in Zimbabwe (1999), UK Combined Code and other codes of governance applicable to Southern Africa. Board evaluation can help the board to tune its contribution to the sustained success of the bank. Board appraisals (Document 3, Table 6.2: 49) can be useful as part of the development of a strategic plan for board or director development and performance measurement consistent with the bank's strategic plan: vision, mission and goals.

A matrix of findings, (Document 4: Table 2.3: 30) ranked the banks according to their financial performance. Themes were categorized into high and low. FirstRand scored highest on most measurement tools followed by Standard Bank, ABSA and Nedbank was last. FirstRand resembled a professional board while Standard Bank and ABSA resembled a representative, which is an indication of high performance and compliance to most tested themes. The argument by Cornforth (2001: 219) states the failure by directors to satisfy all stakeholders is due to a conflict of interest, hence an adoption of the stewardship/Ubuntu theories will mitigate the level of self-centeredness among directors. The emergence of stakeholder theory (Gay 2002) was prompted by the growing recognition by boards of the need to take account of the wider interests of society. The interests of all legitimate stakeholders have intrinsic value and no set of interests is assumed to dominate the other.

Using (Muth and Donaldson 1998: 5 - 28), methodology of measuring performance, the author ranked each bank's performance as measured by each component (Document 4, Table 5.3.1: 59). Red (1) representing the best performing bank in each category. Blue (2) being second, green (3) and yellow (4) being the least performing bank in that category. FNB has the highest number of reds followed by Standard Bank and ABSA, while Nedbank is the least ranked with no single red or blue. Nedbank came last on all categories. This scoring was the basis for ranking the banks, where FNB became the most effective bank using Muth and Donaldson's performance measurement models (Figure 12). As a result of this scoring, the results were recorded on a ranking of high and low taking into consideration most the CG themes, which included transparency, independence and director experience.

The judgement column highlighted the CG themes being measured

5.1.2 ABSA Financial Performance

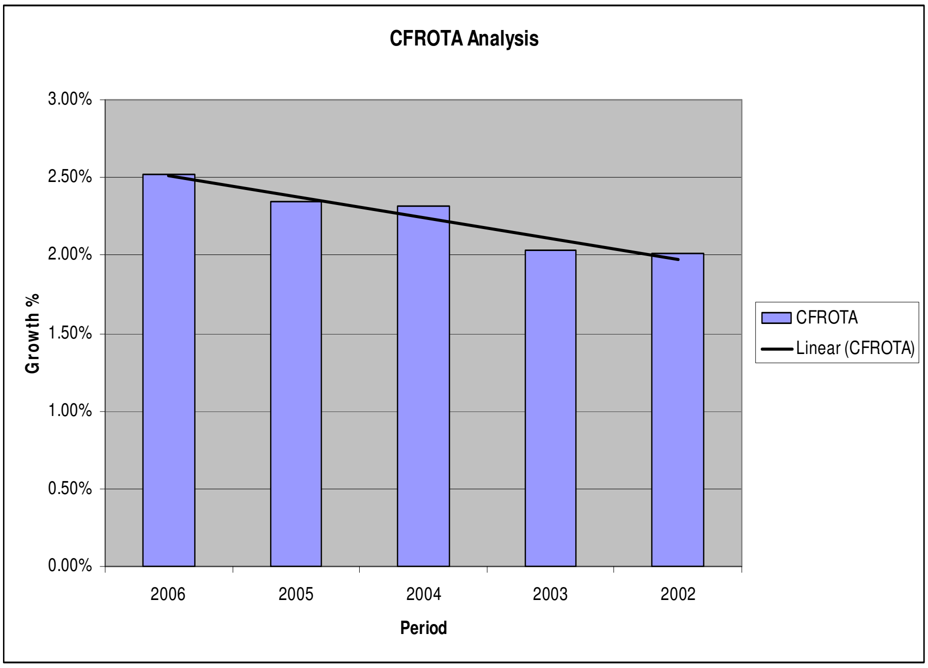


Chart 5.1: Data Sources: Absa Financial Statements

Interviewee 1, 2 and 3 argued that Absa has succeeded in maintaining its earnings momentum over the past five years. This was through further diversification of earnings, improvements in operational efficiency and continued growth arising from its strong market position in the retail banking. Interviewee 3 stated that the growth in the retail bank and its contribution to the group (59%) year on year has resulted in the constant growth in CFROTA. Absa's strategy of high volumes low margins creates a saving culture, which results in the bank managing a large chuck of cash, which generates more cash for the bank's balance sheet (Chart 5.1) argued interviewee 3.

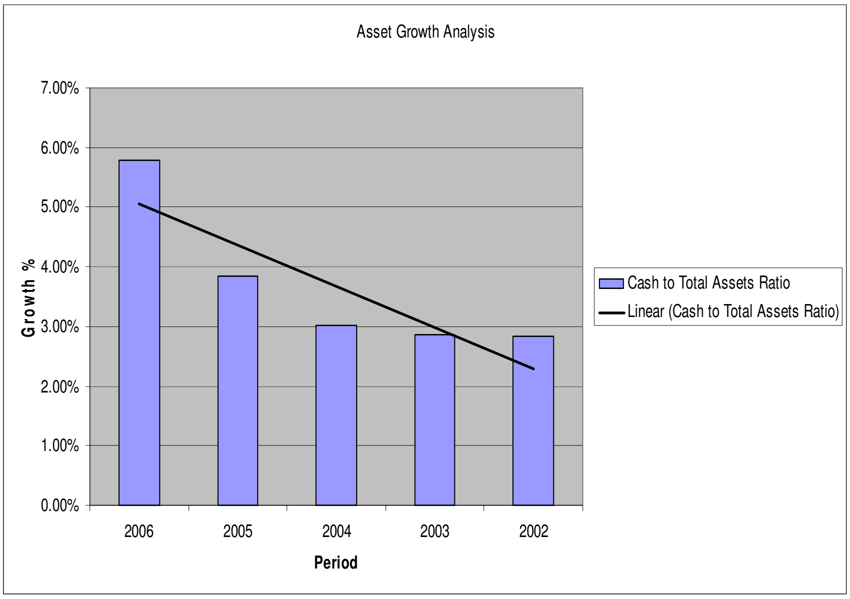


Chart 5.2: Data Source: Absa Financial Statements

Cash to asset growth is an indication of real growth of the shareholder value in assets that cannot easily be manipulated by the directors argued interviewee 3. The exponential growth in 2006 was as a result of the cash injection (free cash flow) after the acquisition of Absa by Barclays, meaning to say there was a cash reserve for organic growth which has assisted Absa in its diversification and acquisitions into Africa which are projected to increase cash generation by 2009 (21%) argued interviewee 1.

As a result of Absa strategy of high volume and low margins, the bank has managed to penetrate the new lucrative black market which was previously not banked argued interviewees 2, 4 and 7. The use of depositors' money in creating value for shareholders has been Absa's focus in the previous three years, which has resulted in Absa turning around the deposits hence creating more cash reserves argued interviewee 3 and 6 as depicted in Chart 5.3.

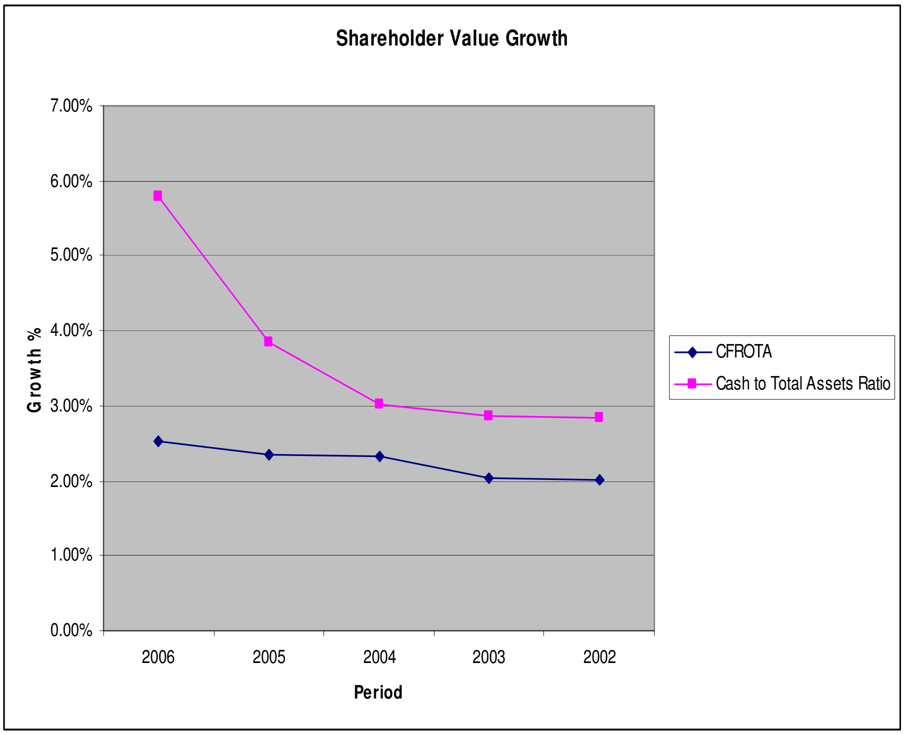


Chart 5.3: Data Source: Absa Financial Statements

Chart 5.3 is comparable to document 4: Chart 4.1.4 which is a comparison of CFROTA and ROE. ROE shows a higher return as compared to CFROTA due to the shenanigans which exists in the preparation of financial statements. CFROTA is a better measurement of shareholder value growth as it is not affected by changes in accounting policies and changes in estimates stated interviewee 3. The numerator and the denominator of CFROTA are not easily influenced by financial engineering hence it's a better measurement of shareholder value creation argued (Dulewicz and Herbert 2004). CFROTA shows a smooth constant growth of shareholder value, which is an indication of the tool not being influenced by changes in accounting policy.

Depositors money is a liability to the bank, hence reduces the value of the bank's balance sheet. As a result of the bank using depositors' money to generate more cash, there is no correlation between CFROTA and cash to assets ratio (Chart 5.3). The decline in cost to income ratio (document 4: Chart 4.1.3/4) is evidenced in Chart 5.3. The efficiencies created by lower operating costs create more cash reserves stated interviewee 3.

5.1.3 FirstRand Financial Performance

FirstRand's performance to 2006 represents the continuation of a track record of excellent growth and returns to shareholders argued interviewee 12. Interviewees 10, 11 and 12 stated that, the results show a compound annualized growth rate of 21% in earnings and 23% in dividends and has maintained a ROE above industry standard. Net profit margin (49%) is higher as a result of income from investment activities. It is not as a result of trading results. Chart 5.4 is a reflection of the real growth in shareholder value as a result of the exponential growth in cash reserves argued interviewee 14.

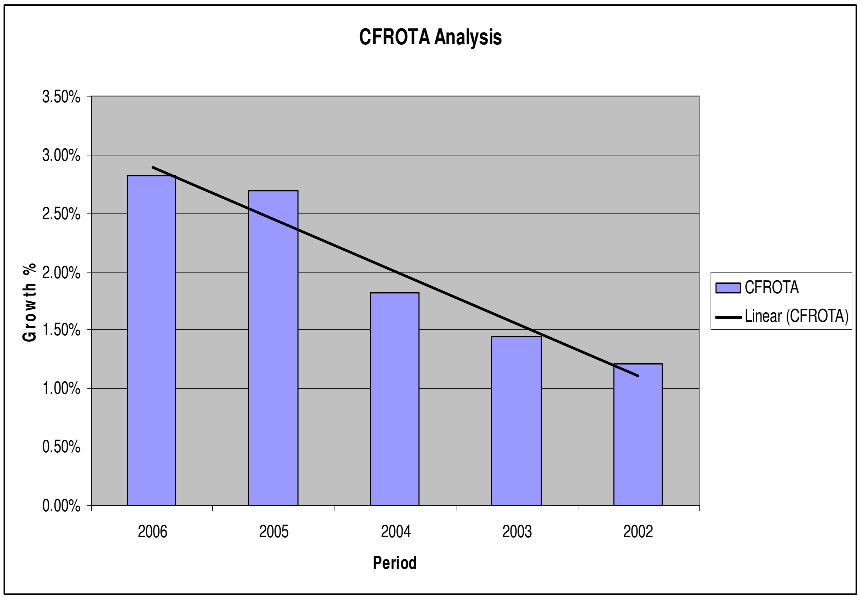


Chart 5.4: Data Source: FNB Financial Statements

The decrease in cash to asset ratio in 2004 and 2005 was as a result of the bank's growth strategy to invest in new value adding assets, which resulted in a big jump in cash reserves in 2006 stated interviewees 12, 15 and 15. The cash to assets ratio (Chart 5.5) is in line with the asset growth (document 4: Chart 4.2.1), which means the bank has a strong balance sheet supported by strong cash generation capacity argued interviewees 14, 15 and 17.

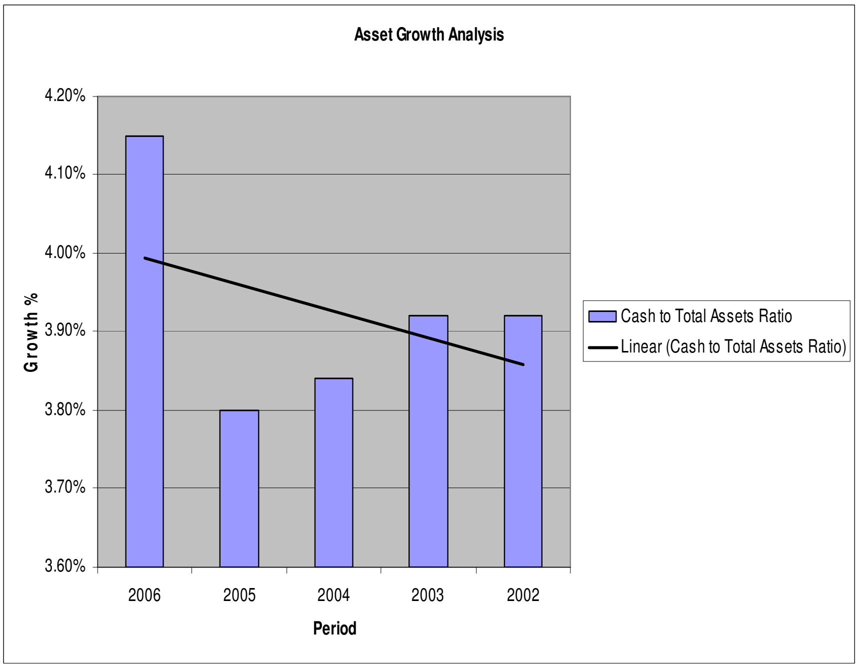


Chart 5.5: Data Source: FNB Financial Statements

From 2005, there is a trend beginning to build that reflect a relationship between operational efficiency which results in strong cash generation capacity and balance sheet growth (document 4: Chart 4.2.1). The cost to income ratio (document 4: Chart 4.2.3) is seen here as a very important tool in managing the bank’s performance and shareholder value creation.

Interviewee 14 argued that the bank operates in the top quadrant of the most efficient and profitable businesses in the world, thus delivering superior value for shareholders. Chart 5.6 is a true reflection of his argument supported by the scoring (Table 9).

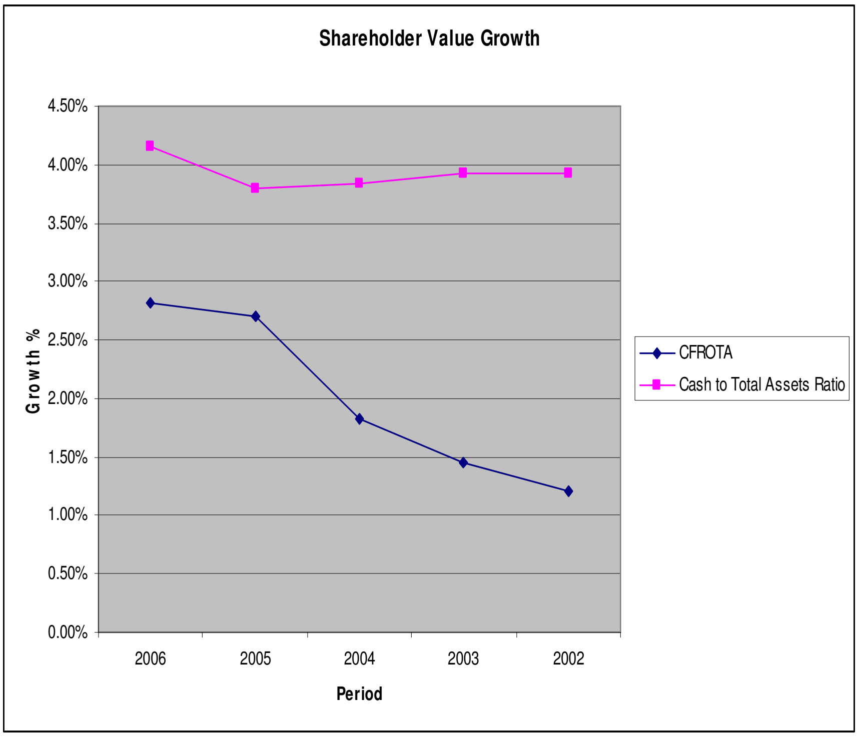


Chart 5.6: Data Source: FNB Financial Statements

5.1.4 Nedbank Financial Performance

The bank has been on a recovery programme since 2003, when new board was appointed and since then some benefits have been achieved. The next challenge for the bank is to claim its position as one of the leading banks in Africa argued interviewee 19. Shareholder value creation has been the board's main focus, which has resulted in great improvement in the bank's performance resulting in the major shareholder (Old Mutual) refusing to dispose the bank argued interviewees 21 and 22.

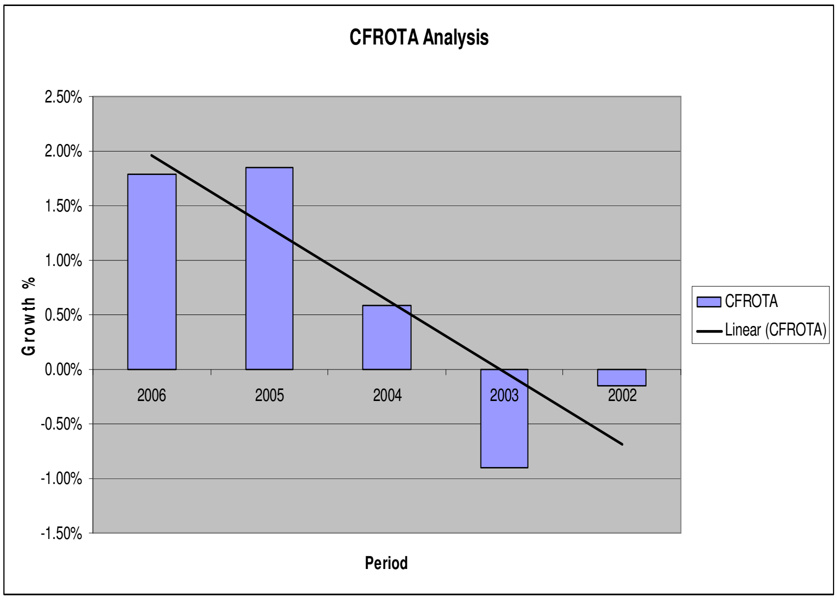


Chart 5.7: Data Sources: Financial Statements

Interviewees 21 and 22 stated that, period 2003 to date has seen a significant growth in CFROTA (Chart 5.7), which has been used to finance the growth in assets (Chart 5.8). The challenges facing the bank is the investment required in order to improve cash generation capacity and branch network. This will take a bit of time but the bank is in the right track in creating shareholder value argued interviewee 19.

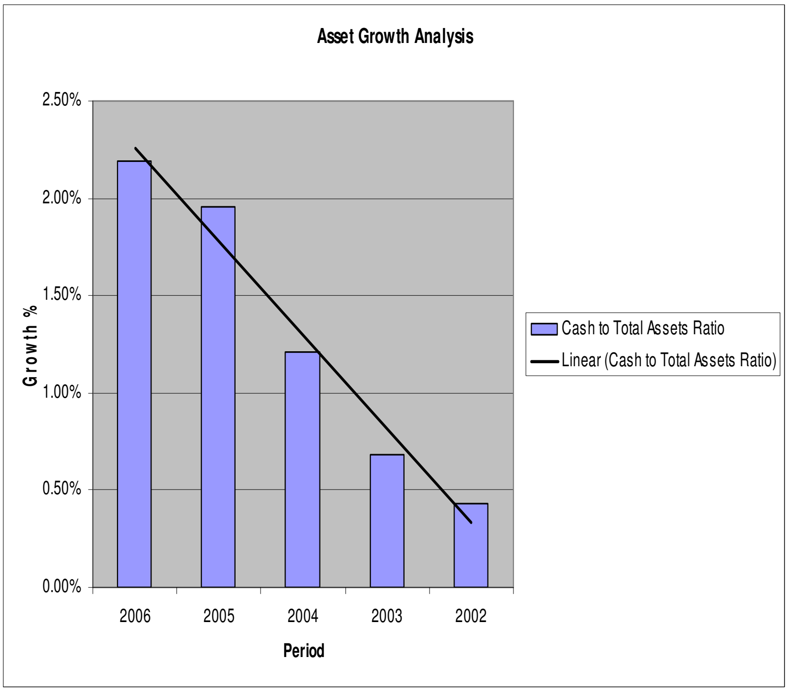


Chart 5.8: Data Source: Financial Statements

As depicted by Chart 5.9 there is no strong correlation between CFROTA and cash to assets ratio due to capital requirement to grow the bank. The positive outcome of these tools is that there has been growth and the empowerment partners have managed to create value for the bank argued interviewee 22. Support from the major shareholder during trying times has assisted the bank in positioning itself as a major player in Africa. Although Nedbank is the fourth largest bank by capitalization in SA and Zimbabwe, the bank is positioning itself to be the pre-eminent bank in Africa by 2015 argued interviewee 19.

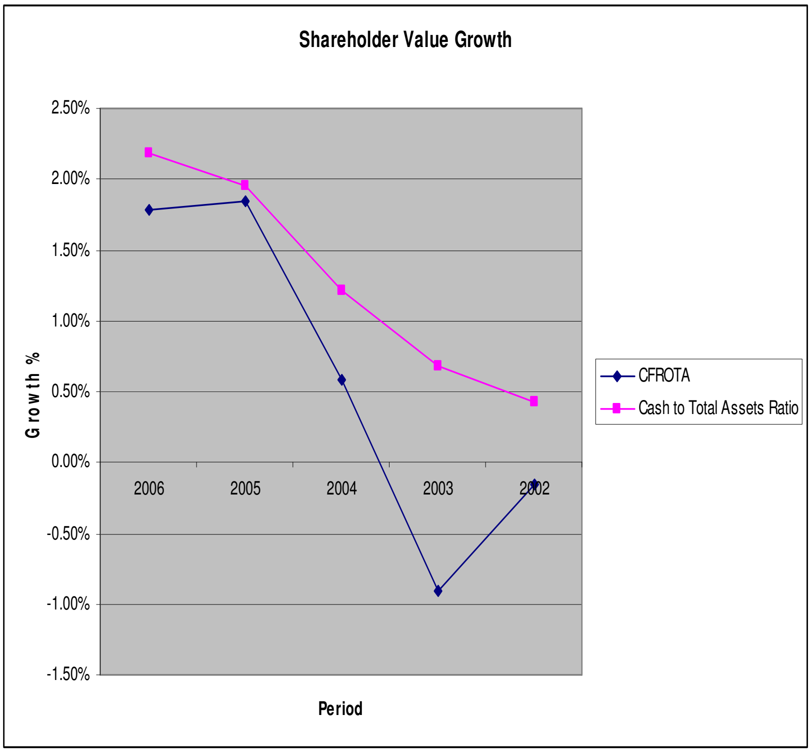


Chart 5.9: Data Source: Financial Statements

5.1.5 Standard Bank Financial Performance

Standard Bank is one of the oldest banks in Africa and the biggest by market capitalization (USD18 billion) and asset base (USD139 billion) as at end of 2006 (Standard Bank Financial Statements 2006). Chart 5.10 shows a near stagnant level of cash generation (CFROTA below 2%), which is a reflection of a lazy balance sheet. The assets are growing (document 4: Chart 4.4.1) yet generating the almost same level of cash. The shareholder value has not been growing significantly.

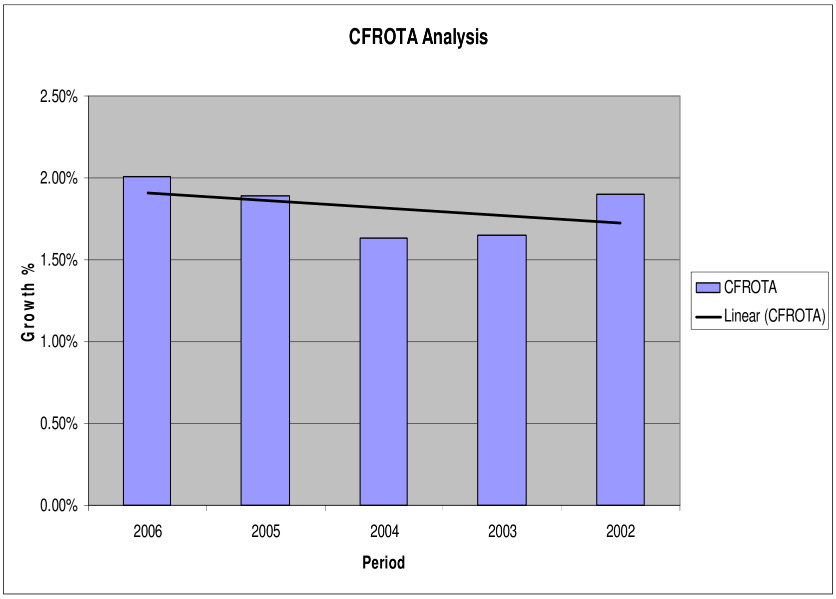


Chart 5.10: Data Source: Financial Statements

The period 2003 and 2004 saw the CFROTA declining, while at the same time cash to assets ratio following. This shows the strong correlation between these two tools. Interviewees 27 and 32 argued that this was due to near recession during this time after a period of high interest rates and high inflation. The bank's performance was marginally offset by modest growth from operations in the rest of Africa, mainly due to higher credit losses in a period of increased spend on skills and systems needed to significantly expand the product base argued interviewees 26 and 27.

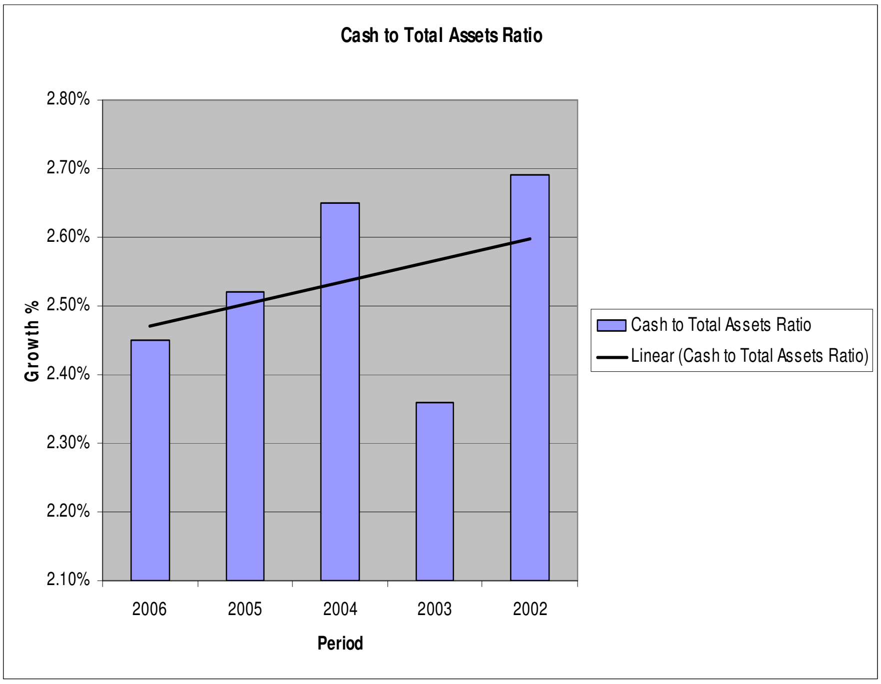


Chart 5.11: Data Source: Financial Statements

Chart 5.11 shows declining cash to assets ratio due to continuous capital investments into emerging markets, which has resulted in new assets not generating much cash as they are not mature yet argued interviewee 32. Although there is not much growth in cash reserves Standard Bank has managed a ROE of 25.2% which is 5.2% above industry standard. Chart 5.12 shows that there is a strong correlation between CFROTA and cash to asset ratio, which has shown a decline due to the bank's capital projects in emerging markets. There is great potential that Standard Bank will be a target for an acquisition soon due to its position in Africa and Asia stated interviewee 29. The effects of a lower cost to income ratio are evidenced here, as it results in higher CFROTA, which is an indicator of shareholder value creation.

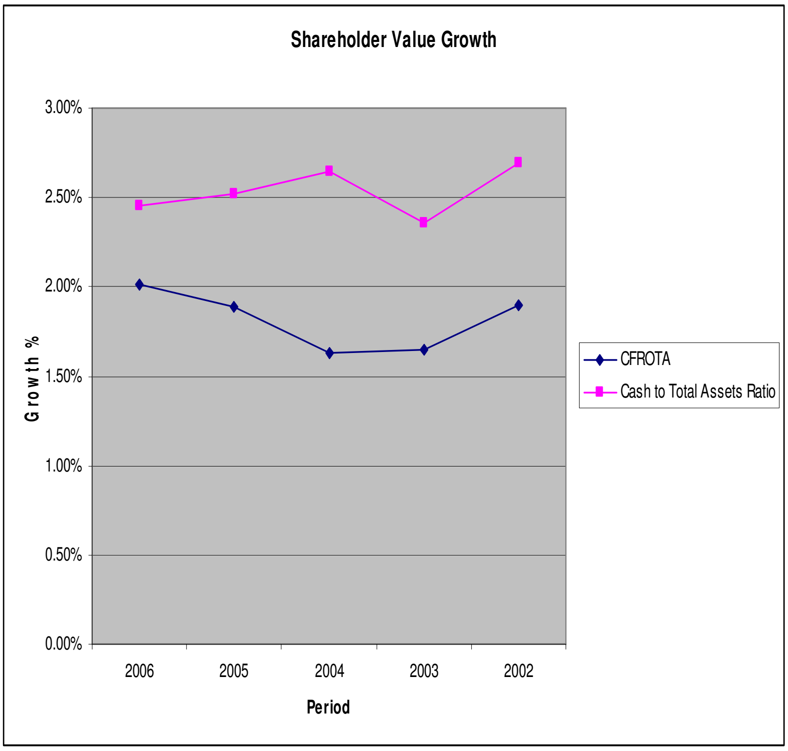


Chart 5.12: Data Source: Financial Statements

5.2 Cross bank analysis

A business will always have an amount piled up in "money to be collected" (Mayer 2007: 17). This is called accounts receivable, and you can easily find it on a company's balance sheet. The difference between earnings and cash flow: "earnings do not repay loans – cash flow does." It is important for any bank to look beyond earnings and figure out the cash flow – the cycle of collections and disbursements. At times those cycles can vary widely; in fact a bank that otherwise appears profitable can suddenly find itself in a cash crunch.

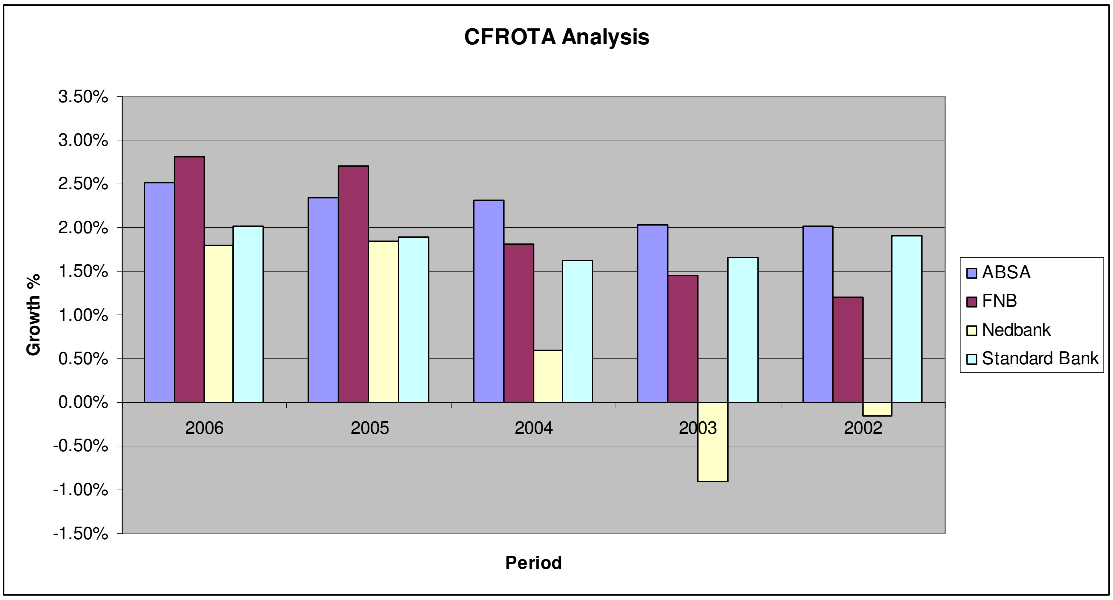


Chart 5.13: Data Source: Financial Statements

Chart 5.13 is a result of the bank that generated the highest CFROTA each year from 2002. Since 2002 Absa generated the highest CFROTA until 2004 when FirstRand took over. FirstRand and Standard Bank's shareholder value was constantly growing until the FirstRand took over the leadership position in 2005. This is a reverse of document 4's findings that showed Standard Bank having a ROE above all banks (document 4: 51). The consistency that is shown by Absa, FirstRand and Standard Bank (Table 7) is very important for shareholders and investors. Nedbank has shown a significant growth in CFROTA since its near collapse in 2000/3 and the board is confident that soon Nedbank will be a force driving the industry argued interviewee 19.

	2006	2005	2004	2003	2002
ABSA	2.52%	2.35%	2.32%	2.03%	2.01%
FNB	2.82%	2.70%	1.82%	1.45%	1.21%
Nedbank	1.79%	1.85%	0.59%	-0.90%	-0.15%
Standard Bank	2.01%	1.89%	1.63%	1.65%	1.90%

Table 3: CFROTA Ratio Analysis

CFROTA's limitations are not significant as other historical measurement tools. There is no better tool that can be used to measure future performance or cash requirements. It is a tool which should be recommended to all the banks to use so that proper comparison can be done by shareholders and investors argued interviewee 35.

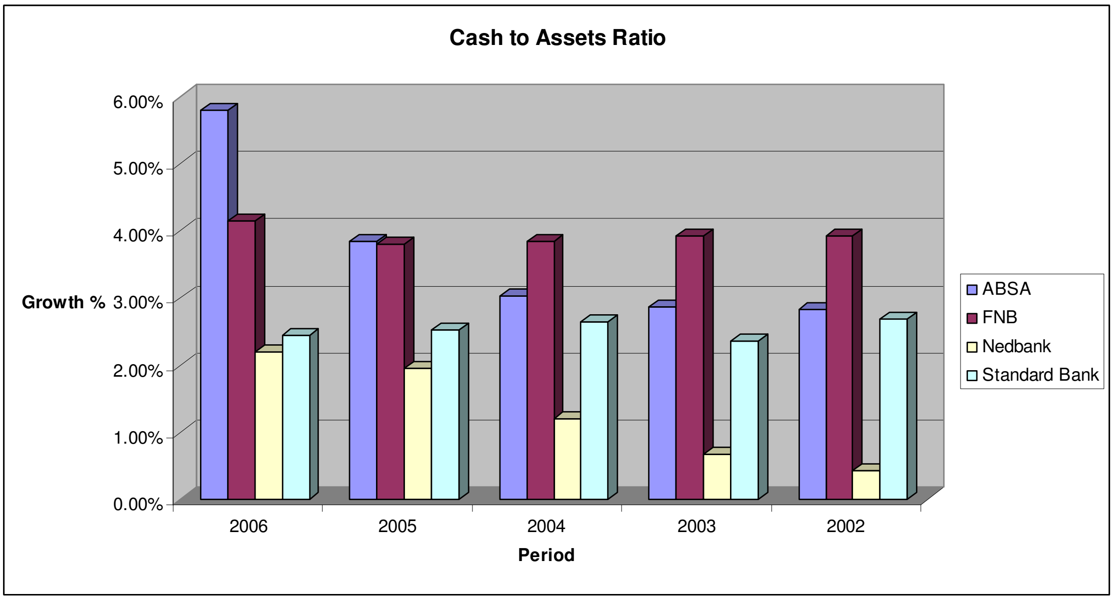


Chart 5.14: Data Source: Financial Statements

	2006	2005	2004	2003	2002
ABSA	5.79%	3.85%	3.03%	2.87%	2.83%
FNB	4.15%	3.80%	3.84%	3.92%	3.92%
Nedbank	2.19%	1.96%	1.21%	0.68%	0.43%
Standard Bank	2.45%	2.52%	2.65%	2.36%	2.69%

Table 4: Cash to Assets Ratio Analysis

5.3 CFROTA Links in banks

Section 5.1 of this research analysed the findings of the performance of all the four banks in SA and Zimbabwe. The consolidated findings of the study are shown on Appendix 7 where factor analysis was used for the calculation to test the relationship between the board and bank performance using CFROTA as a tool of measurement. As can be seen, a few variables were statistically significantly related to each performance measure. The number of EDs excluding the Chairman and the average tenure of NEDs were related significantly to CFROTA. Contribution of IDs, NEDs and EDs is assessed, which reflects the revenue and cash generation capabilities of different boards. Thus, the greater the number of EDs and the experience of IDs, NEDs, the better the performance of the bank. These were then assessed against the banks' structure, objectives, mission and vision.

Comparisons on board variables were carried out using the t-tests, of which the results are shown in Appendix 7: Table B. No differences were found between banks when assessing the growth in revenue and CFROTA as there is a strong correlation between revenue generation and CFROTA. In view of the results in Appendix 7: Table A and B, the researcher explored the links between ratings of CFROTA, cost to income ratio and revenue, of which the correlation coefficient was calculated for each of the themes and 33 indicators (28%) showed statistically significant correlations (Appendix 7 &: Table 7C). Appendix 7's results is an indication that CFROTA is a strong measure of board effectiveness as it measures all areas of business as compared to Muth and Donaldson (1998)'s tools of measurement.

5.4 Board mechanisms, structure and output

Data analysis consisted of three broad phases (Appendix 9) which are:

1. **Cross tabulations:** Various likert scales were examined to see if they could be treated as continuous and decisions made about how to treat bank performance data;
2. **Correlations:** Correlations were computed to examine the degree of association between the independent variables and the overall effectiveness of the boards;
3. **Stepwise logistic regression:** Assessment to analyse which factors best explained variations in board effectiveness.

In order to assess what was the most appropriate measure of effectiveness to use, the researcher compared two measures (effectiveness and multi-item scale), which measured how effectively different board functions were performed (board structures). The relationship between this average measure and overall effectiveness was examined using correlation and regression analysis. The two measures were strongly related (Table 3). Also the stepwise logistic regression was conducted in order to understand which variable had the most impact on the effectiveness of the boards. The results are shown on Table 4. The variables that have a significant impact on overall effectiveness were at the $p<0.05$ level.

The regression analysis shows five components that best explain judgements of overall effectiveness. In order of importance they are – how effectively the board carries out the following functions: setting the bank's mission and values, helping fund the business or other resources, financial reporting, reviewing and deciding strategic direction and reviewing board performance. Together these themes account for about 61% of the variation in overall effectiveness.

Variables	Simple odds ratio	95% Confidence interval	Adjusted odds ratio	Significant level	95% Confidence interval
Effect 1	8.02	5.47 - 11.75	3.17	0.001	1.65 - 6.07
Effect 2	9.02	6.02 - 13 .52	2.20	0.020	1.13 - 4.27
Effect 3	5.35	3.87 - 7.40	2.95	-	1.72 - 5.07
Effect 4	8.77	5.72 - 13.46	2.19	0.014	1.17 - 4.10

Key and notes

Pseudo	R2 = 61%
Number of respondents	41
Effect 1	Setting and understanding the bank's mission and values
Effect 2	Revising and deciding the bank's strategic direction
Effect 3	Overseeing the financial reporting of the bank
Effect 4	Reviewing board performance and its effectiveness

* Simple odds ratio estimates are based on all respondents available at the time

Table 5: Regression showing board effectiveness

Appendix 8 is an indication of the results of the findings of the effect of board structures on board effectiveness. The findings were that, board effectiveness is strongly related to how effective the board members are judged to have performed during their evaluation (Document 3: Table

6.3: 65). In particular regression analysis suggested that how well boards performed five functions mentioned above (Appendix 8) was most important in testing the overall effectiveness of each board.

5.5 Ubuntu as a CG measurement tool

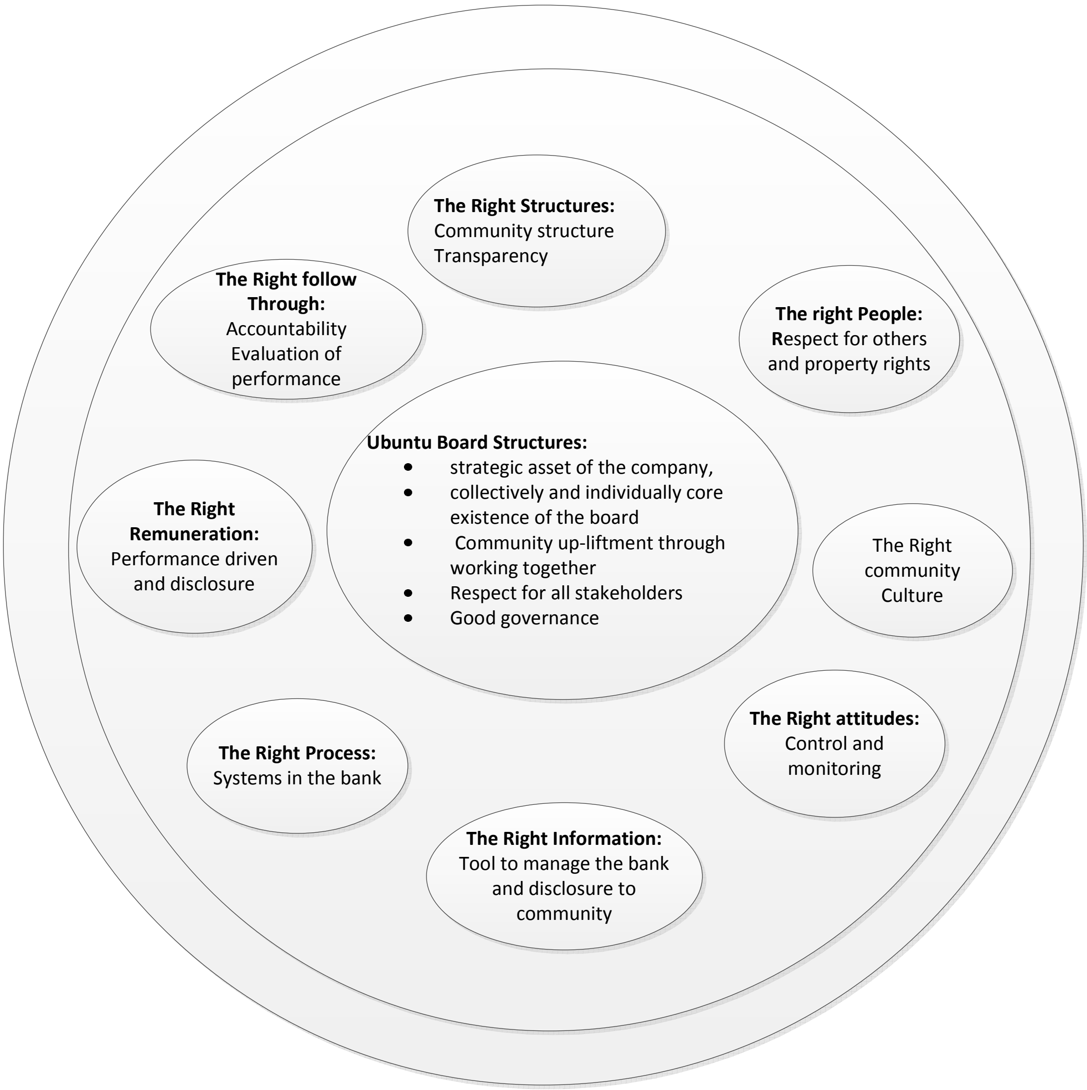


Figure 5-1: Ubuntu governance architecture developed for this study

There is diversity in the composition of the board of directors in the banking sector, which has both positives and negatives. The positives include African directors have a good understanding of the Ubuntu governance processes while the foreign directors do not understand the concepts. Two Chiefs where included in the list of respondents in order to understand the Ubuntu governance process. Figure 14 is the outcome of these two interviews, which the Chiefs call a governance evaluation tool. Chiefs are compared to the directors of the bank as they also have their governance processes which are similar to companies. Chiefs rule together with the assistance of (directors) Izinduna/Magota/Inkosi/Isibonda/Machinda who assist them to run and manage the Chieftainship.

Theme	Criteria	Mean	Min	Max
The right structure	30	44.20%	-2.40%	68.20%
The right people	12	45.10%	0.00%	80.00%
The right culture	16	73.00%	14.30%	95.00%
The right attitudes	21	72.60%	29.20%	100.00%
The right information	12	63.70%	-11.10%	92.30%
The right processes	23	65.90%	28.60%	84.80%
The right remuneration	7	38.20%	0.00%	62.50%
The right follow through	11	18.00%	-50.00%	100.00%
Total	**132**			

Table 6: Findings of banks board's evaluation

The structure as per Figure 5.1 is a governance tool (Appendix 8) which advocates for good governance, accountability and transparency driven from social cultural upbringing of the African people argued interviewee 37 and 38 (Appendix 10). Communities are the beneficiaries of good governance argued interviewee 38 (Appendix 10). Figure 14 was developed after interviewing the two Chiefs (Appendix 7) and this tool was applied to all the boards of the four banks. Using this evaluation tool different criterion were explored and classified into Table 4 themes. The boards of directors were then scored on 132 aggregated themes.

Table 4, 5 and Figure 5.1 provides the overall findings of the four banks using the Ubuntu concept. Due to regulatory framework in South Africa and Zimbabwe, which was put after the collapse of many banks from 1991 to 2005 (Document 2: Appendix 1), higher results were scored on right culture and right attitudes. The worst themes are the right remuneration as discussed in section 5.5 and follow through. These themes show negative results, indicating that some boards did not satisfy a majority of sub-criteria. Using the Ubuntu model in the banks, weaknesses were identified in the following areas, structure, people, information dissemination, processes, remuneration and follow through (evaluation of individual board member performance).

5.6 Power of Executive Directors

Document 3's major finding was the power that accumulates to the CEO as a result of the historical performance of the bank. Section 5.1 highlights the historical performance of the four banks, which has resulted in the CEOs being considered as the engines of growth and value creation. The result was the growth in their remuneration against the decline of employee wages argued interviewee 36 (Appendix 10). Table 4 is an indication of the reward CEOs of the four banks received over the years in recognition of the value which was created during the time they were occupying the positions.

Bank	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
	R.(000)	R.(000)	R.(000)	R.(000)	R.(000)	R.(000)	R.(000)	R.(000)
ABSA	3 600	5 400	6 670	8 700	11 500	19 500	22 100	13 500
FNB	2 800	4 800	5 200	6 700	8 800	10 400	11 500	10 600
Nedbank	3 200	4 900	6 400	8 700	9 900	15 320	26 000	43 000
Standard Bank	3 400	4 990	7 800	9 400	12 100	14 200	16 800	18 200

Table 7: Published Bank CEO Remuneration

According to figures released in the Bargaining Indicators 2009 publication, brought out by the Labour Research Services, executive director salaries rose 11.6% on average, those of chief executive officers (CEOs) increased by on average 14% and non-executive directors saw their fees rise by 15%. The average low-wage worker saw an increase of 10.1% in 2008.

Author Taal (2009), in her Directors' Fees Survey 2009, notes that in 2008 the average annual remuneration for an executive director was R6, 439, 000; chief executive officers received R10, 460, 000, which is below the salaries of CEOs of banks and non-executive directors earned R522, 000. A low-wage worker would therefore have to work 16.5 years, 203 years and 330 years to earn what an average non-executive director, executive director and CEO respectively were paid in 2008.

The 70 CEOs in the sample earned a total of R732, 221, 000 in 2008 and the 282 executive officers took home a collective R1, 822, 339, 000. The 655 non-executive directors collectively earned R341, 614, 000 for their part-time work. All of these figures exclude gains made on long-term incentives which can increase a director’s package substantially when it is exercised.
In the current economic climate, workers are not alone. Outrage among shareholders at the vast fees directors pay themselves may result in calls for shareholder input on what and how executive pay is decided. While shareholders often represent other corporate, rather than worker, interests, their complaints do keep the spotlight on this area of inequality and it should be an avenue that unions are prepared to utilise to push the cause of the workers.

5.7 Board performance gaps

Section 1.3 highlighted that there are different forms of capital that create the expectation gap. The findings were in line with the existing gaps in the corporate governance field. Section 5.1 list quantitative findings for all the banks, which reflect the gaps that exist within the governance system in SA and Zimbabwe which are caused by structural capital. Section 5.2 has findings that are defined by cultural and social capital, which if not complied with will widen the gap. CEO power is another major factor that increases the gap, as CEOs are no longer accountable to the shareholders and other stakeholders as per the findings on section 5.5 and Table 6.

Appearance	**Reality**
Shareholders' interests are secured through the election of directors who protect their interests	Shareholder action with respect to the election of directors can best be described as 'coerced ratification'. No matter how shareholders vote, those individuals listed on management proxy are elected
The preponderance of directors are 'independent' according to the rules of JSE, ZSE and IOD	Boards of directors are self-perpetuating. The CEO has at least the power to veto nominees, but usually actively participates in the selection process. Membership is highly valued and those selected are conscious of benefit conferred on them
Most boards have compensation committees comprised entirely of 'independent' directors	How can anyone be considered 'independent' of someone to whom they are personally beholden?
Best practice requires the use of 'professional' compensation	The realities of a successful professional practice include not being perceived as

consultants	insensitive to the needs of those in whose gift lies your selection
The ‘free market’ ensures that competitive factors control the levels of CEO pay	There is no ‘free market’ in top executive compensation. CEOs control the critical stages of the process, including Government and professional accounting treatment

Table 8: Reality of findings

5.8 Measurement of Board effectiveness

Chart 5.14 and Table 8 compares cash to asset ratio, which shows a constant growth in Absa and FirstRand. 2006 saw Absa’s ratio shorting up as a result of the capital injection by Barclays during the acquisition. Every measurement tool has seen FNB leading the pack.

5.8.1 Bank quantitative scoring

	ABSA	FNB	Nedbank	Standard Bank
Leadership development profile score	H	H	H	H
Shareholder Activism	M	H	M	M
Operating Profit margin (%)	29.8	49.4	23.6	36.1
Net Profit Margin (%)	21.5	32.9	17.7	24.6
Cash to Assets Ratio (%)	5.8	4.2	2.2	2.5
Cost to income ratio (%)	54.6	53.8	58.2	53.5
ROCE (%)	27.4	25.1	18.6	25.2
CFROTA (%)	2.5	2.8	1.8	2.0
EPS (cents)	1216.8	171.6	1 135	864.5

Key		Ranking
(red)		1
(blue)		2
(green)		3
(yellow)		4
H	High performance	
M	Medium performance	

Table 9: Bank Performance Ranking

5.8.2 Bank qualitative scoring

CG is important for protecting investors' interests, but also for reducing systemic market risks and maintaining financial stability (Zhuang *et al* 2000). A study of Southern African banks by the Development Bank of Southern Africa in 2007 indicates that the weakness of corporate governance in African countries is related to a highly concentrated ownership structure, weak board of directors, excessive Government intervention, under-developed capital markets and a weak regulatory framework.

CG themes	ABSA	FNB	Nedbank	Standard Bank
Shareholder Activism	3	5	4	3
Director independence	3	2	3	3
Bank transparency	4	4	4	4
Board experience	4	5	4	4
Entrepreneurial	3	5	4	3
Board/management relationship	4	4	4	4
Skills level	4	5	4	4
Training	5	5	5	5
Stakeholder rights	3	3	3	3
Total	**33**	**38**	**35**	**33**

Table 10: Sources: Banks' board evaluation

Table 10 is a result of categorical data that cannot be measured but can be ranked or classified (Section 4.6). The assessment of these issues was done by the boards through themes in Table 10 using a scoring of 1 to 5, one being the weakest and five the highest score. These themes were found to have an effect on each bank's performance. The low score affects the governance structures of the bank while affecting its performance. A governance assessment was also done in order to analyse the governance and systems that triggers the effectiveness of the board. Table 10 illustrates the findings in all the banks under review, which is an indication of the strong regulatory enforcement by the respective Central Banks. The inputs are the new Central Bank and King 3 Report requirements, which stipulate the skills level each board member must have, required training, independence and reporting. The outputs are in sync with a performing bank which operates effectively.

Inputs	Structures	Processes	Outputs (Functions)
Right mix of skills and experience	• Size of the board • Frequency of meetings	**Common vision (Shared mindset):** • The board and management share common vision of what the bank is trying to achieve • The board and management share common vision of how it should go about achieving its goals	**Strategy and policy making:** • Setting the bank's mission and values • Reviewing and deciding the bank's strategic direction • Setting organizational policies
Board members have time to do the job	• Percentage of board members that usually attend meetings	**Clear roles and responsibilities:** • The board has a clear understanding of its role and responsibilities	**Stewardship:** • Overseeing the financial management of the bank • Ensuring the bank has adequate financial systems and procedures • Monitoring bank performance and taking action when required
Board members are involved in the reporting in order to improve on transparency	• Presence or absence of formal sub-committees	**Regular review:** • The board and management periodically review how they are working together	**Supervising and management support:** • Selecting and monitoring the bank's CEO, EDs and senior staff • Supporting and advising management
Board	• Availability	**Communication:**	**Board maintenance:**

members are independent	of written job descriptions for board members	• Communication between the board and management is good • Misunderstandings are rare between the board and management	• Recruiting new board members • Reviewing board performance and ensuring it works well
Shareholders playing a role at board level	• Availability of induction or training for new board members	**Managing conflict:** • The board and management are able to solve conflict between themselves constructively • Board members are able to resolve conflict between themselves constructively	**External relations and accountability:** • Ensuring that the bank fulfils its legal obligations • Ensuring accountability to the bank's stakeholders • Representing the interests of stakeholders in the bank • Taking charge when things go wrong • Acting as a link with important groups the bank deals with • Representing the bank externally • Helping to raise funds or other resources for the bank
		Meetings practices:	

		• The board has adequate notice of important issues to be discussed at board meetings • Board meetings have a clearly structured agenda • Important items are prioritised on the agenda • Board meetings run on for too long • It is clear who has responsibility for following up actions agreed by the board • The board has trouble reaching conclusions	

Table 11: Governance process in banks

Shareholder activism and entrepreneurship are some of the major themes, which were found to be of importance for the success of each bank. The banks that failed (document 2: Appendix 1), most of them were as a result of shareholder interference, where banking practice where not followed. Too much shareholder involvement affects the administrative function of the ED and at the same time affecting performance of the bank. FNB scored the highest in this category as a result of the fact that the founders of the bank are still involved administratively and at board level.

The King 3 report on corporate governance in Southern Africa became necessary because of the new Companies Act no. 71 of 2008 ('the Act') and changes in international governance trends. This Report, referred to as King III, was compiled by the King Committee with the help of the King subcommittees. There is always a link between good governance and compliance with law. Good governance is not something that exists separately from the law and it is entirely inappropriate to unhinge governance from the law (The King Committee 2009). The starting point of any analysis on this topic was the duty of directors and officers to discharge their legal duties. These duties are grouped into two categories, namely: the duty of care, skill and diligence, and the fiduciary duties. As far as the body of legislation that applies to a company is concerned, corporate governance mainly involves the establishment of structures and processes, with appropriate checks and balances that enable directors to discharge their legal responsibilities, and oversee compliance with legislation.

Central Banks in SA and Zimbabwe have made it compulsory for any bank to comply with the King 3 Report and its practice notes. The notes requires that board members be highly qualified, must be trained on banking regulations and should go through an induction programme.

This has resulted in some of the findings during this research the same as they are mandatory. Chart 5.14 is a true reflection of these findings.

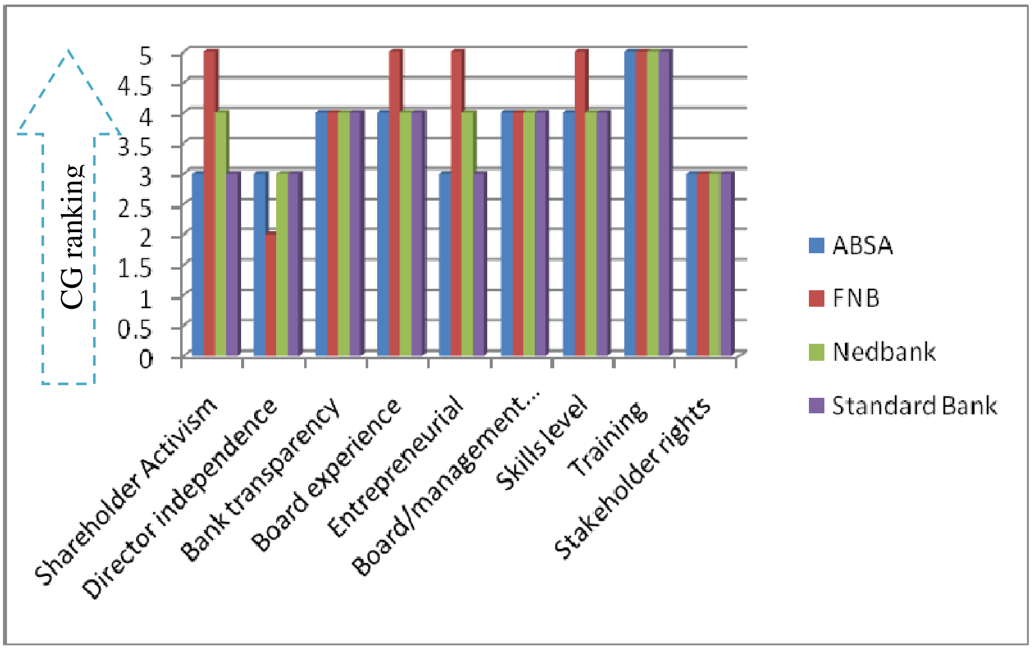


Chart 5.15: CG themes ranking

Chart 5.15 is a ranking of Table 10 (Board assessment), which showed similar results on all banks except FNB which scored a 2 on director independence due to the fact that the bank is the only bank which is owner managed. Although the board members may be independent, but by the fact that they are the founders of the bank resulted in a lower score. Other banks' board members are former EDs of the same bank. They meet the threshold of the cool off period of three years after being an executive of the bank. There is also perception that their independence is affected by that association.

5.9 Logistic regression model

To examine the cross-sectional relationship between transparency, independence, experience, shareholder activism involvement in banks' performance and independent variables, the researcher used logistic regression analysis (Table 12) although the sample was small. The author used logistic regression analysis because dependent variable (transparency) is a categorical dichotomy and therefore the ordinary least squares (OLS) regression analysis was considered inappropriate for estimating the parameters (Field, 2000). As Tabachnick and Fidell (1996) show, given a dichotomous dependent variable, logistic regression analysis yields estimators that are asymptotically efficient and normally distributed, and thus making it feasible to construct appropriate large sample confidence bounds and tests of hypothesis for parameters. The following logistic regression model was therefore estimated:

Transparency = $\beta_0 + \beta_1 AudCosh + \beta_2 AudExpert + \beta_3 Bdsize + \beta_4 ExDshares + \beta_5 PropNed + \beta_6 Asset + \beta_7 Turnover + \beta_8 Gear + \beta_9 Profit + \beta_{10} Cash + \beta_{11} techMARK + \beta_{12} ComAge + ej$ (1)

Where: (1) Transparency takes the value 1 if independent directors are the majority and 0 otherwise;

(2) $\beta_0 ......\beta_{12}$ = Regression coefficients;

(3) e_j = Error term and;

(4) AudCosh, AudExpert, etc. are independent variables defined in Table

Equation 1: Regression Model

Operational definitions of independent variables included in the study		
Variable	Operational definition	Acronym
1. Transparency characteristics		
Board member independency	Percentage of independent directors	Indbm
Size of the board	Number of independent board members	Bdsize
2. **Board of directors' characteristics**		
Proportion of Independent Directors	Number of Independent directors divided by total number of all directors on the bank's board of directors at the preceding annual report date.	PropInd
Proportion of Non-executive Directors	Number of non-executive directors divided by total number of all directors on company's board of directors at the preceding annual report date.	PropNed
3. Performance characteristics		
Revenue generation		
Gearing	Long-term debt divided by long-term loans plus shareholders' equity at the end of interim period.	Gear
Cash	Dummy variable coded 1 if bank reported a growth in cash deposits; 0 otherwise.	Cash
Profit	Dummy variable coded 1 if bank reported a profit before interest and tax; 0 otherwise.	Profit
TechMARK Listing	Dummy variable coded 1 if bank listed on JSE's financial market; 0 otherwise	TechMARK

Table 12: Logistic regression model

5.9.1 Descriptive statistics: Continuous variables

Continuous Variables	Director Involvement (n=30) Mean (Standard dev)	Director no Independent (n=65) Mean (Standard dev)	Mann-Whitney U-test (P-value)
Indbm	0.09	0.69	-0.086
	-0.025	-0.121	0.000
Bdsize	3.392	2.841	-6.559
	-0.984	-1.134	0.000
PropInd	0.523	0.451	-0.136
	-0.131	-0.15	0.000
PropNed	0.069	0.192	-0.048
	-0.121	-0.204	0.000
Revenue	584.49	76.92	6.819
	-949.82	-144.45	0.000
Gear	0.733	0.687	-2.850
	-2.24	-1.759	0.000
Cash	0.954	0.871	-2.821
	-1.25	-1.87	0.000
Profit	1509.44	114.73	8.020
	-2602.96	-142.65	0.000

Table 13: Regression analysis outcomes

Table 13 presents descriptive statistics for the independent variables used in the logistic regression analysis. The figure also includes the results of Mann-Whitney U tests comparing the means of values of continuous variables between the group that involve ID and those that are not.

As the statistics indicate, there are several significant differences between banks that engage more ID and those that do not. On average banks that engage more IDs have lower number of NEDs (PropNed) and also lower executive directors' shareholding (ExDshares). The mean shareholding of IDs and executive directors' shareholding for banks involving IDs is 1% and 6.9%, compared with 6.1% and 19.2% for those not engaging more IDs, respectively.

The rest of the themes scored similar results due to the regulatory framework setup by the Central Banks. Board experience was one theme with different results due to some board members who do not have a first degree and are not experienced in this sector. Stakeholder rights are observed by all banks. Compliance to these requirements results in better performance of the bank as the CG structures assist bank performance.

5.9.2 Corporate Governance overall matrix

Ranking was done using CFROTA and Ubuntu architecture in this document, while document 4 used ROCE and other tools developed by Muth and Donaldson (1998: 5 – 28) which resulted in the ranking of Figure 8-1. Table 14 was developed in order to categorize banks according to their level to corporate governance best practice (Document 4: 3.4). The four categorizes were discussed with all respondents and agreed as a good rating tool as it incorporates major activities of boards. Table 10 is an outcome of Table 9 which ranked FirstRand board as a professional board due to its high standards of corporate governance. ABSA followed FirstRand while Standard Bank dropped to a country club board, where collegiality is an important component of the constitution of the board. Nedbank remained lowest.

		CFROTA	
	Judgment	**High**	**Low**
High	• Shareholder Activism • ROCE • High levels of board experience, skills and development programmes • Technical and professional • Level of independence • Level of transparency • Entrepreneurial • Revenue and cash generation • Cost to income ratio	**Professional board:** FirstRand	**Representative board:** ABSA Standard Bank
Low	• Little Shareholder participation • Low levels of board experience, skills and development programmes • Technical and professional • Level of independence • Level of transparency • Stakeholder mapping • Revenue and cash generation • ROCE • Cost to income ratio	**Country club board:** Nedbank	**Passive board:**

Table 14: Bank matrix position - developed for this research

Table 14 is an outcome of Table 9, 10, 11 and Chart 5.15 that shows board effectiveness in each category as per the ranking of Table 9 and results from interviews which are shown below (Table 11 and 14). Table 14 highlights the required structure of the board including skills level, board member involvement and roles, which is then categorized into the four levels (Table 10). FNB is high on all categorizes while ABSA and Standard Bank have some lows which does not affect the effectiveness of the board significantly. Nedbank is still in the change process after the near collapse in 2003.

Each bank has realized that change is the only constant, hence has to be managed by up skilling the directors and employees argued interviewee 33. FirstRand ranked first in almost all categories followed by Absa, Standard Bank and Nedank last. EPS was not used as a measure of effectiveness as it is influenced by accounting shenanigans and as reflected the ranking is directly opposite to the other tools. As a result of Nedbank's growth in cash reserves and cash generating capacity, its ranking moved from a country club board (document 4: 57) to a representative board.

5.10 Corporate governance and the financial crisis in SA and Zimbabwe

The credit crunch, and the resulting crisis among leading financial institutions in Southern Africa, is increasingly presented as a crisis of corporate governance. However, although current problems are to an extent indicative of shortcomings in the global financial architecture, they should not be interpreted as reflecting dysfunction in the broader Southern Africa, USA and Europe corporate governance models where values-based principles are followed and governance is applied, not only in form but also in substance.

Consequently, it is essential that Southern Africa policymakers focus their response to the crisis on the underlying sources of the problem, including any defects in the financial regulatory framework (both in Southern Africa and globally). Populist calls for more general legislative corporate governance reform must be treated with the appropriate caution (King III Report 2009).

Critics of Southern Africa's light regulatory touch often suggest that emulation of the more 'robust' US approach would improve corporate governance standards, and thereby reduce the risk of systemic economic crises in the future. However, it is worth remembering that the US is the primary source of the current financial crisis. SOX – with all of its statutory requirements, for rigorous internal controls – have not prevented the collapse of many of the leading names in US banking and finance (King III Report 2009). The introduction of the National Credit Act (NCA) 34 of 2005 assisted in reducing the level of exposure, hence minimized the impact of the credit crunch in Southern Africa. There has not been any bank failure in South Africa and Zimbabwe since the advent of the financial crisis in 2008.

5.11 New and useful knowledge – King 3 Report 2009

"Profit is an opinion, while cash is a fact." The argument by (Muth and Donaldson 1998: 5 - 28), of using the conventional methods of measuring effectiveness was found not to be sufficient as they do not measure the generation of cash, which is a true measurement of wealth and value creation. The growth in shareholder value is measured by the growth in cash reserves, price earnings ratio (PE) and dividend growth argued interviewee 19.

The conventional ratios do not calculate the growth in cash but only profit and dividend growth, which are subject to manipulation. Liquidity calculation is an important factor in identifying the growth of shareholder value. To support this argument the researcher used a new concept "*CFROTA*" and cash flow to debt ratio in this document in order to test whether the increase in cash increases shareholder value and whether this will be a correct measure of shareholder value growth. A null hypothesis is correct, that the conventional accounting measurement tools are not sufficient measurement of shareholder value growth and effectiveness of directors as they exclude the cash component, while

IDs and NEDs are required for the effective functioning of the board, through their watchdog, trustee and strategy formulation functions. CFROTA and the scorecard are important tools to use when measuring performance and effectiveness of boards of directors in the banks.

5.11.1 Leadership, sustainability and corporate citizenship

The philosophy of this research revolves around leadership, sustainability and corporate citizenship. To facilitate an understanding of the thought process, debate and changes, the King III Report (2009), highlighted key aspects of corporate governance:

I. *Good governance* is essentially about effective *leadership*. Leaders should rise to the challenges of modern governance. Such leadership is characterised by the ethical values of responsibility, accountability, fairness and transparency and based on moral duties that find expression in the concept of Ubuntu. Responsible leaders direct company strategies and operations with a view to achieving sustainable economic, social and environmental performance.

II. *Sustainability* is the primary moral and economic imperative of the 21st century. It is one of the most important sources of both opportunities and risks for businesses. Nature, society, and business are interconnected in complex ways that should be understood by decision-makers. Most importantly, current incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves.

III. The concept of *corporate citizenship* which flows from the fact that the company is a person and should operate in a sustainable manner. Sustainability considerations are rooted in the South African and Zimbabwean Constitutions which are the basic social contract that South Africans and Zimbabweans have entered into. The Constitutions imposes responsibilities upon individuals and juristic persons for the realisation of the most fundamental rights.

The King III Report (2009) highlighted three key aspects of corporate governance which are important for sustainability and value creation for the banks. Good governance, sustainability and corporate citizenship are all impeded in the Ubuntu concept and for any bank to gain competitive advantage, these recommendation are critical tools.

5.11.2 The link between governance principles and law

There is always a link between good governance and compliance with law. Good governance is not something that exists separately from the law and it is entirely inappropriate to unhinge governance from the law. The starting point of any analysis on this research is the duty of directors and officers to discharge their legal duties. These duties are grouped into two categories, namely: the duty of care, skill and diligence, and the fiduciary duties. As far as the body of legislation that applies to a company is concerned, corporate governance mainly involves the establishment of structures and processes, with appropriate checks and balances that enable directors to discharge their legal responsibilities, and oversee compliance with legislation.

In addition to compliance with legislation, the criteria of good governance, governance codes and guidelines will be relevant to determine what is regarded as an appropriate standard of conduct for directors. The more established certain governance practices become, the more likely a court would regard conduct that conforms with these practices as meeting the required standard of care. Corporate governance practices, codes and guidelines therefore lift the bar of what are regarded as appropriate standards of conduct. Consequently, any failure to meet a recognised standard of governance, albeit not legislated, may render a board or individual director liable at law.

5.12 Expansion of knowledge and models

Personal mastery developed during the period of this project is irrelevant if it's not utilized and shared in the communities. The Ubuntu model is a theory that requires expansion and development especially in non-African jurisdiction. The project will benefit countries like the USA where company failures are becoming normal. The Unity for Africa on CG, Business Schools and companies the researcher will be advising will benefit from the models developed here (CFROTA, Ubuntu, Stewardship and Stakeholder Theories) will be used as the foundation of good CG.

5.13 Summary of Findings

"High performance operating processes are necessary but not sufficient for enterprise success (Kaplan and Norton 2008: 1). You can have the best processes in the world, but if your governance process does not provide the direction and course correction required to achieve your goals, success is a matter of luck." The most successful bank is the one with sound governance process, where there is little information asymmetry and less complains from all stakeholders. FNB proved (quantitatively and qualitatively) that owner managed banks who follow the rules, can lead the pack as evidenced from documents 3, 4 and 5, which shows the evidence that shareholder activism is a an important theme for the bank to achieve better performance and value creation.

Promoters of the bank have the vision of where and how they would like to position the bank. Their involvement in decision making and policy formulation is critical for the success of the bank. Reduction of agency costs from the governance process can improve protection of stakeholder interests when shareholders are involved in the administration of the bank. The opportunistic self – interest assumption of agency theory, claiming that managers are motivated by "a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility, authority and thereby gain recognition from peers and bosses'' (Davis *et al* 1997: 20). Hugg (1998), Stiles and Taylor (2001) supported this perspective saying it recognizes a range of non-financial motives for managerial behaviour and it supports the active school, arguing that the strategic role of the board contributes to this overall stewardship of the company. Muth and Donaldson (1998) agree with above researchers saying that insider – dominated boards contribute a depth of knowledge, expertise and commitment to the firm which facilitates an active strategic role.

Until we see the board's role being professionalized and the supremacy of the board being reasserted, we shall not restore full shareholder confidence in business, public leaders or the markets (Garratt 2003: 1). While the management literature is accepting the value of performance appraisals, there is disagreement in the governance literature as to the role, value and contribution of board appraisals to board effectiveness (Ingley and Van Der Walt 2002). Typically, performance evaluation is concerned with assessing board function and processes which will bring back the confidence. TSE guideline 5 provides that, *"every board of directors should implement a process to be carried out by the nominating committee or audit committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors"* (Kazanjin 2000).

6 King III Recommendations

The researcher participated in the development of The King III Report (2009) which recommended that:

I. *Inclusivity* of stakeholders is essential to achieving sustainability and the legitimate interests and expectations of stakeholders must be taken into account in decision-making and strategy.

II. *Innovation, fairness, and collaboration* are key aspects of any transition to sustainability – innovation provides new ways of doing things, including profitable responses to sustainability; fairness is vital because social injustice is unsustainable; and collaboration is often a prerequisite for large scale change. Collaboration should not, however, amount to anti-competitiveness.

III. *Social transformation* and redress from colonialism are important and should be integrated within the broader transition to sustainability. Integrating sustainability and social transformation in a strategic and coherent manner will give rise to greater opportunities, efficiencies, and benefits, for both the company and society.

IV. King III explicitly required companies to implement the practice of *sustainability reporting* as a core aspect of corporate governance. Since 2002, sustainability reporting has become a widely accepted practice and South Africa and Zimbabwe are emerging market leaders in the field (partially due to King II and the emergence of initiatives such as the JSE, ZSE's Socially Responsible Investment (SRI) index which was the first of its kind in an emerging market). King III supports the notion of sustainability reporting, but makes the case that whereas in the past it was done in addition to financial reporting it now should be integrated with financial reporting.

All the major banks are compliant with the King III Report (2009) as stated above. There are a few areas of CG that makes the banks perform differently which each board need to look at. As per the findings FNB has the most effective board followed by ABSA, Standard Bank and Nedbank respectively. Three of the tasks in this area of research held significant association with bank performance. Thus, boards more disposed to acknowledge the potential to improve their abilities in determining the vision, values, aspirations, ethics and policies for the banks might expect to enjoy superior, ensuring financial performance. But, they were less sanguine about enhancing their performance in determination of bank objectives, even though their current practice on this task could be construed as counter-productive.

The main investigation was on the main to look for the best possible way of measuring shareholder value, bank performance and board effectiveness. Two tools of measurement were found to be more suitable that is CFROTA and the scorecard. The traditional measurement tools were found to be insufficient as evidenced by the current financial crisis. If these were enough the credit crunch would have been detected beforehand, which could have prevented Lehman Brothers from collapsing.

7 Policy Options

The analysis of banks has shown that IDs and NEDs are important components of the bank's governance process as evidenced by their contribution in each bank. They have a legal and professional obligation to assist in the formulation of strategies in the bank. The problem is the time they have for the bank with its complex structure, hence document 2 raised the behaviour of the board of (Enron 2002) that, "we were meant to believe ….. we were misled by management." Although they have a legal obligation to manage risk and improve transparency, their major limiting factor is time available to them in order to understand how banks function.

It was agreed with the Chairman of the King 3 Report (interviewee 35) (Appendix 10) that executives must take responsibility of the risks of the operations of the bank not to pass the responsibility to IDs, NEDs, or auditors as they have the stewardship responsibility. Shareholders need to rely on the judgement and honest of the executive directors; (document 3: 43; Freeman 1984) also supported this argument. The board meet at most four times a year (excluding sub-committee meetings) this has been observed to be insufficient time. The author therefore proposes that the IDs and NEDs be used as a consultative board to advise the executives as a result of their expertise.

7.1 Auditors and Audit Committees

The current UK (ISS Corporate Governance Policy 2008) states that any change of auditors, whether agreed by the board as part of a periodic planned review or for any other reason, should be explained and justified to shareholders. Auditors have been the trustees of shareholders wealth since the separation of ownership and control, but they have also caused governance problems (Enron 2002, WorldCom 200, TA Bank of Southern Africa, Trust Bank and document 2: Appendix 1) argued interviewee 33. In an effort to reduce risk, the ISS Governance policy has proposed new changes including periodic re-tendering (to maintain auditor objectivity), auditor's limited liability and auditor rotation but this has not worked argued interviewees 35 and 36. These changes have failed to bring sanity in the governance processes as in some cases auditors have short changed shareholders, hence the involvement of audit committees is very critical for safeguarding shareholder value.

Audit committees are sub-committees of the board responsible for assessing the effectiveness of internal controls, risk and implementation of strategies. They are supported by the internal audit function who reports directly to the Chairperson of the Audit Committee. Their role, the author proposes that be enhanced so that they take over most of the responsibilities of the external audit.

As a result of the complex nature of banks, it takes time for external auditors to understand how banks operate and the level of knowledge required understanding its functions as a whole. Internal audit should be well resourced so that they take the responsibility of managing risk in the bank as they spend more time and they are employees of the bank. It is to their interest that banks secure their continued employment. In order to avoid bullying by management, the head of internal audit should report directly to the Chairman of the Audit Committee who is not an employee of the bank. This will improve transparency and reduce risk as a result of constant internal control reviews by staff with knowledge of the operations of the bank.

7.2 Regulatory Framework

Changes about to be implemented as a result of the review of the Companies Act will have the same negative impact that was caused by the (Sarbanes – Oxley Act of 2002) argued interviewee 33. The responsibility and risk that IDs and NEDs carries will result in skilled potential board members declining appointment as they cannot have personal liability in organizations they do not manage. This change will affect the level of skills at board level which will negatively affect performance of companies argued interviewee 18. The author then recommends a deregulation of the financial service sector to allow free market play as continuously regulating the industry will affect performance and at the same time losing investor confidence.

8 Research Integration

Experience and social systems are the major triggers that activate the mechanisms on the conceptual framework, in order for the bank to follow the CG principles, which will result in better corporate performance that add value to shareholders argued interviewees 33, 34, 35 and 36. Key to better CG lies in the working relationships between executive directors, shareholders, managers, IDs and NEDs in the social dynamics of board interaction and in the competence, integrity and constructive involvement of individual directors (Nadler 2004: 102 and Leblanc 2004: 437). IDs and NEDs are not necessary as they do not know what is happening in the bank due to their limited time they have for the bank and their dependence on information from the CEO (Mace 1971 and Herman 1981). Demb and Neubauer (1992: 51) disagreed saying that IDs and NEDs have three responsibilities of being the *watchdog, trustees and pilots* of strategy formulation. They argued that the boards of today are directed by their professional conduct which requires them to act ethically and professionally. They therefore comply with the requirements of the code of best practice. There is strong dependency on all stakeholders to be involved in the governance process especially those (audit committees) that assist in improving transparency. These board dynamics produced the findings that the governance of banks is a process which requires many variables for a board to be effective, which creates capacity to be able to meet set objectives.

8.1 Banks Corporate Governance Process

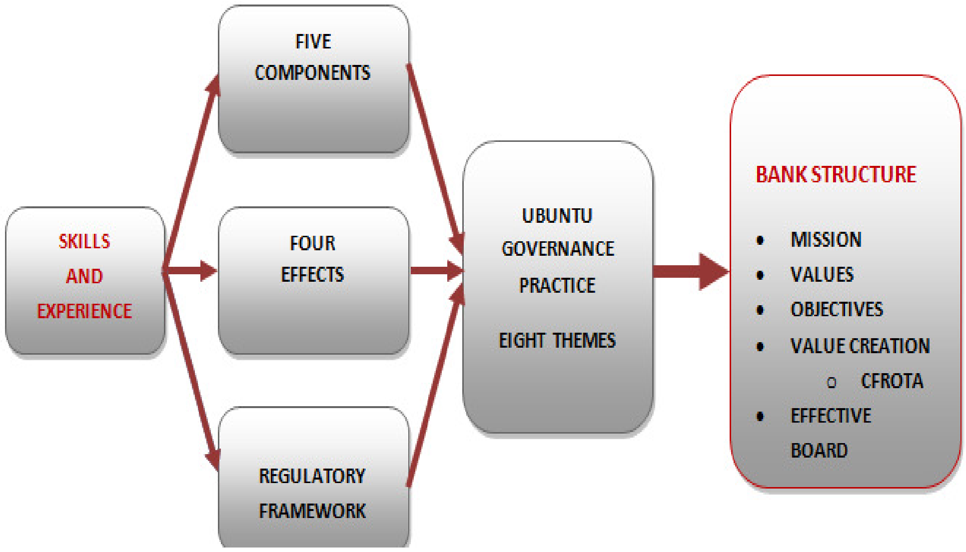


Figure 8-1: Effective bank linkages - results of this study

The process of board effectiveness is triggered by the level of skills and experience at board level argued interviewee 19. Document 3 quoted Garratt (2003) as an advocate for a learning and innovative board, which are the results of this research. Figure 8-1 is a consolidation of all the findings (qualitative and quantitative). The regulatory framework, four effects and five components discussed above are the baseline that triggers the eight themes (Ubuntu practice) to create an effective board. Appendix 7, 8 and 9 findings supports this tool as a tool that can be used to audit existence and effectiveness of the corporate governance systems in the banks.

8.2 Reflective Critique

There was agreement among the NEDs interviewed that decision management that is initiation and implementation of strategies is an executive function, whereas decision control that is ratification and monitoring is IDs and NEDs' function. Once there is a clear understanding of these roles, transparency will improve argued interviewee 18.

The role of auditors failed in this research to yield results that support the cost that comes with their engagement (Appendix 1 to 4). Legally every public company is required to have auditors, but there has been little research that assesses their effectiveness and whether they add shareholder value. According to (Turnbull 2006) auditors cannot be independent as they have an interest in auditing the bank. This will be left for further research, but the current information suggests that auditors support negative trigger on the conceptual framework as the increase in audit fees does not support the value creation model.

Man exists in a social cluster and has an interpersonal nature, a nature dependent on others to help define and distinguish. The strong communalist and interdependent nature of Ubuntu has established the virtues of patience, hospitality, loyalty, respect, sociability, and sharing among its adherents, which is in line with the stewardship theory. Individuals become entwined with other members of the family, clan or tribe over their lifetime in a series of obligations and expectations. The social value of interdependence is taught in many African proverbs, which needs to be taught in the corporate environment:

- A man here, a man there means no fear. (*We can achieve anything if we support one another.*)
- The sickness of the eye is the sickness of the nose. (*Your neighbour's problem is your problem.*)
- A neighbour is a sibling. (*Care for your neighbours as family.*)

The proverbs above indicate the strong bonds of intimacy, mutual support and interdependence found in true Ubuntu societies. This perspective recognizes a range of non-financial motives for managerial behaviour and it supports the active school (Document 2: 30), arguing that the strategic role of the board contributes to this overall stewardship of the company argued (Hugg 1998: 101, Stiles and Taylor 2001).

8.3 Summary

The various process variables were cross tabulated with overall effectiveness using conventional accounting methods and CFROTA to see if linear trends emerged and the data from the various data sets could be treated as an effective way of measuring board effectiveness. CFROTA seems to be the most effective way of measuring bank performance, while the scorecard is the most effective way of measuring the effectiveness of CG practices in the banks. This was not the case for all variables, as they excluded calculation of cash flows, so in the subsequent stepwise logistic regression these variables were treated as categorical. The correlation matrix showed that all the process variables were significantly correlated with overall board effectiveness and with each other. The stepwise logistic regression analysis identified four process variables that best explained variances in overall board effectiveness.

The researcher's finding confirms that, Shareholder activism was observed to be an important attribute which enhance bank performance and improves as shareholders get involved in the board activities (Policy formulation). FirstRand was seen as a good example of an owner manage bank that has high corporate governance standards that has resulted in its success. IDs, NEDs and management are appointed with no real power to function but wait for instructions from the owners argued interviewee 34. This was also common in document 2 and the reason why most banks failed. There are appointed to make the numbers with no authority argued interviewee 33.

The evidence in support of this conclusion comes from (White *et al* 2003) who argued that a higher liquidity is an indication of shareholder value. Accounting measurement tools have proved to be insufficient in measuring the effectiveness of the board as they do not measure the gearing and liquidity of the bank. Cash was found to be a true measurement of wealth as it is difficult to manipulate cash received argued (Barnes 2004: 91). A growth in cash is an indication of shareholder value growth.

9 Conclusion

The board as an ultimate decision making body, formulate strategies but their performance cannot be linked to corporate performance although they take the overall responsibility for the bank's performance (Dulewicz et al 1995). The decision making process is very critical for the success of any of the four banks, covering strategy formulation; execution and implementation are some of the factors that are important for the bank to improve performance. Board experience, skills, diversity and the up bring of board members (Ubuntu) has been observed to be important as to how board members respect different stakeholders. The research attempted to present a framework and processes (although not definitive) to assist researchers, boards, investors and other stakeholders to conceptualise how boards should work and how they create shareholder value.

Ubuntu is seen as one of the founding principles of the new Africa's governance (Figure 5.1), and is connected to the idea of an African renaissance and respect for each other and property rights (sections 3.6 and 3.7). In the political sphere, the concept of ubuntu is used to emphasize the need for unity or consensus in decision-making, as well as the need for a suitably humanitarian ethic to inform those decisions. Ubuntu is essentially: "An ancient African worldview based on the values of intense humanness, caring, respect, compassion, and associated values ensuring a happy and qualitative human community live in a spirit of family" Stated (Broodryk 2002). Ubuntu could also be described as a community-based mind-set in which the welfare of the group is greater than the welfare of a single individual in the group (Kwamwangamulu & Nkonko, 1999:27). Individualism support self-centeredness, which promotes corruption, while Ubuntu is a concept that support togetherness, equal distribution of resources, accountability to the community and the use of resources for the benefit of all stakeholders.

Communalism is that of collective solidarity, meaning that individuals will focus their interests, activities, and loyalties of their own accord, in line with the group's cause and well-being (Mokgoro, 1997). Each individual realises that he/she is part of a group and that the group depends on his/her skills, inputs, labour and loyalty in order to survive. The communalist lifestyle also places within each individual a strong sense of belonging – arguably one of the strongest needs in humans today. The communalist lifestyle thus provides each member a sense of purpose and security in relation to that group. The strong collective thinking of Ubuntu implies that the individual members of the group cannot imagine ordering their lives individualistically without the consent of his family, clan or tribe (Kwamwangamulu & Nkonko: 1999:27). Ubuntu is enshrined in the principles of good governance, stewardship and good practice.

This research sought to draw a lesson for designing major reforms of CG in the future. It recalls the key events leading to the recent seismic shift in CG policies applicable to African public corporations, and identifies the four sources of policy changes – the Sarbanes-Oxley Act, new listing requirements, governance processes, and judicial opinions (CG theories and about perennial CG issues). It presents a synthetic overview of the numerous reforms, which at the most general level aim to fix the audit process, increase board independence, transparency, performance and improve disclosure of information. It pauses to identify the vast territory of unchanged CG rules that are still left to state law, and then examines some of the empirical studies that bear on whether the governance reforms can be confidently predicted to have strong positive results for investors.

The research suggests an irony: studies about the impacts of the most costly reforms, those concerning audit practices and board independence, are fairly inconclusive or negative, while studies about proposals for shareholder empowerment and reduction of managerial entrenchment indicate that changes in these areas - which in general are only atmospherically supported by the SOX-related changes - could have significant positive impacts. Admittedly, the general evidence for mandatory disclosure does suggest that the new round of enhanced disclosures, which are only moderately costly, will have good effects. A new approach for the next crisis-generated reform movement is based on the notion that bandwagons are unavoidable, but their motivating impact can be leveraged and their bad effects alleviated by good statutory design but not over regulation of the sector.

Three of the tasks in this research held significant association with bank performance. Thus, boards are more disposed to acknowledge the potential to improve their abilities in determining the vision, culture, values, aspirations and policies for the business might expect to enjoy superior, ensuring financial performance. They were less sanguine about enhancing their performance in the determination of bank objectives, even though their current practice on this task could be construed as counter-productive. The explanation could be that some boards are reluctant – perhaps by dint of inherited custom and practice – to concede that the route to better performance is reduction in their level of engagement …. by devolving more responsibility to management?

It is hoped this research will assist boards, investors and researchers to investigate the complexities of boardroom life, assist policy makers develop laws and regulations which will improve firm performance and help boards and their advisors to develop and maintain effective boards. The role of auditors in the shareholder value creation model requires further research as the belief that they add value needs to be tested against the cost of audit fees and corporate failures we have seen.

'The success of companies in the 21st century is bound up with three interdependent sub-systems – the natural environment, the social and political system and the global economy. Global companies play a role in all three and they need all three to flourish.' This is according to Tomorrow's Company, UK. In short, planet, people and profit are inextricably intertwined. A key challenge for leadership is to make sustainability issues mainstream. Strategy, risk, performance and sustainability have become inseparable; hence the phrase 'integrated reporting' which is used throughout this research. The achievement of best practice in sustainability and integrated reporting is only possible if the leadership of a company embraces the notion of integrated sustainability performance and reporting. There are some examples of visionary leadership in this area. Tomorrow's Company for example, recognises that tomorrow's global company should *'expand its view of success and redefine it in terms of lasting positive impacts for business, society and the environment'.* Sustainability is, however, about more than just reporting on sustainability. It is vital that companies focus on integrated performance. The board's role is to set the tone at the top so that the company can achieve this integrated performance.

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11 Appendices

11.1 Appendix 1 – ABSA performance

ABSA background

1991 signified the formation of Amalgamated Banks of South Africa Limited (Absa) through the merger of UBS Holdings, the Allied and Volkskas Groups, and certain interests of the Sage Group. The merger was after the near collapse of UBS in 1990. In 1992 Absa acquired the entire shareholding of the Bankorp Group (which included TrustBank, Senbank and Bankfin), thereby extending its asset base even further. In 1997 the name of the holding company, Amalgamated Banks of South Africa Limited was changed to Absa Group Limited, consisting of three main operating divisions.

In 1998 the United, Volkskas, Allied and TrustBank brands were consolidated into a single brand, and Absa adopted a new corporate identity. In 2005, Barclays, acquired a majority stake in Absa as part of its drive to expand its global product and international retail and commercial banking businesses in attractive markets outside the United Kingdom.

The Absa Group Limited (Absa), listed on the JSE Limited, is one of South Africa's largest financial services groups offering a complete range of banking, bancassurance and wealth management products and services. Absa's business is conducted primarily in South Africa and on the Africa continent, where it has equity holdings in banks in Mozambique, Angola, Tanzania and Zimbabwe and other countries including United Kingdom, Germany and Singapore.

At 31 December 2006, Absa had assets of R495 billion, more than 749 physical outlets in SA, 8, 4 million customers, 7 053 automated teller machines and 35,154 permanent employees www.absa.co.za. Absa employs a customer-centric business model with targeted business units serving specific market segments. The Group interacts with its customers through a combination of physical and electronic channels. Absa become a subsidiary of Barclays Bank PLC on 27 July 2005, when Barclays acquired a controlling stake in the Absa Group. Barclays is an international financial services group engaged in retail and commercial banking, credit card issuing, investment banking, wealth management and investment management services.

ABSA Group

Consolidated income statement for the year ended 31 December 2006

	Note	2006	2005
Net interest income		**14,941**	**9,341**
Interest and similar income	29	38,368	23,037
Interest expense and similar charges	30	-23,427	-13,696
Impairment loses on loans and advances	7	**-1,573**	**-569**
Net interest income after imparement loses on loans and advances		13,368	8,772
Net fee and commission income		10,374	7,086
Fee and commission income	31	10,951	7,441
Fee and commission expense	31	-577	-355
Net insurance premium income	32	2,994	1,948
Net insurance claims and benefits paid	33	-1,319	-797
Changes in insurance and investment liabilities	34	-748	-526
Gains and losses from banking and trding activities	35	1,347	855
Gains and losses from investment activities	36	1,916	1,259
Other operating income	37	938	548
Operating income before expenses		**28,870**	**19,145**
Operating expenditure		-17,566	-12,211
Operating expenses	38	-16,620	-11,433
Impairments	40	-75	-54
Indirect taxation	41	-871	-724
Share of retained earnings from associates and joint ventures	12	113	101
Operating profit before income tax		11,417	7,035
Taxation expense	42	-3,151	-2,191
Profit for the year		**8,266**	**4,844**
Attributable to:			
Ordinary equity holders of the group		8,105	4,776
Minority interest - ordinary shares		88	68
Minority interest - preference shares		73	0
		8,266	**4,844**
Basic EPS (cents)	43	1,216.8	721.4
Diluted EPS (cents)	43	1,154.4	692.7
Headline earnings	44	7,872.0	4,902.0
Headline EPS (cents)	44	1,181.8	740.4
Diluted headline EPS (cents)	44	1,121.3	710.9

ABSA Group

Consolidated balance sheet as at 31 December 2006

	Note	2006	2005
Assets			
Cash, cash balances	2	16,461	15,036
Statutory liquid asset portfolio	3	20,829	16,289
Loans and advances to banks	4	21,800	20,805
Trading assets	5	17,983	23,450
Hedging assets	5	676	396
Loans and advances to customers	6	386,174	306,856
Reinsurance assets	9	390	423
Other assets	10	12,175	6,762
Investments	11	13,798	9,904
Investments in associates and joint ventures	12	693	895
Intangible assets	13	230	191
Property and equipment	14	3,750	3,451
Current tax assets	15	24	17
Deferred tax assets	16	129	86
Total assets		**495,112**	**404,561**
Equity and liabilities			
Liabilities			
Deposits from banks	17	35,156	25,745
Trading liabilities	18	23,484	20,915
Hedging liabilities	18	1,902	486
Deposits due to customers	19	368,449	303,945
Current tax liabilities	20	1,181	417
Liabilities under investment contracts	21	5,129	3,459
Policyholder liabilities under insurance contracts	22	3,187	2,736
Borrowed funds	23	8,420	6,483
Other liabilities and sundry provisions	24	10,746	11,812
Deferred tax liabilities	16	2,537	2,562
Total liabilities		**460,191**	**378,560**
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	26	1,338	1,327
Share premium	26	2,067	1,875
Other reserves	28	412	622
Retained earnings		27,876	21,931
		31,693	**25,755**
Minority interest - ordinary shares		236	246
Minority interest - preference shares	27	2,992	0
Total Equity		**34,921**	**26,001**
Total Equity and Liabilities		**495,112**	**404,561**

ABSA Group

Consolidated cash flow statement for the year ended 31 December 2006

	Note	2006	2005
Cash flow from operating activities			
Interest and commissions received		25,156	15,962
Insurance premiums and claims		1,675	1,070
Net trading and other income		1,827	1,239
Cash payments to employees and suppliers		-15,581	-10,698
Income taxes paid	45	-3,333	-2,199
Cash flow from operating profit before changes in operating assets and liabilities		9,744	5,374
Net decrease/inrease in trading securities		5,187	-1,895
Net increase in loans and advances to customers		-80,891	-54,425
Net increase in other assets		-16,464	-3,895
Net increase in insurance and investment funds		1,373	1,520
Net decrease/increase in trading liabilities		3,985	-237
Net increase in amounts due to customers and banks		73,915	52,374
Net decrease/increase in other liabilities		-865	2,124
Net cash (utilized)/generated from operating activities		**-4,016**	**940**
Cash flow from investing activities			
Purchase of property and equipment	14	-1,150	-972
Proceeds from sale of property and equipment		120	192
Purchase of intangible assets	13	-149	-47
Proceeds from disposal of intangible assets		7	0
Acqusition of subsidiaries, net of cash	54	-44	0
Disposal of subsidiaries, net of cash	54	-133	0
Disposal of associates, net of cash		745	54
Acquisition of associates, net of cash		-174	0
Net (increase/decrease in securities		-1,564	2,749
		-2,342	**1,976**
Cash flow from financing activities			
Issue of ordinary shares		197	281
Issue of preference shares		2,992	0
Share buy - back		-17	0
Proceeds from borrowed funds and debt securities		2,000	1,500
Repayment of borrowed funds and debt securities		-6	-750
Dividend paid		-2,367	-2,401
Net cash generated/(utilized) from financing activities		**2,799**	**-1,370**
Net (decrease)/increase in cash and cash equivalents		-3,559	1,546
Cash and cash equivalents at the beginning of the year		8,343	6,796
Effect of exchange rate movement on cash equivalents		3	1
Total cash and cash equivalents at the end of the year		**4,787**	**8,343**

ABSA Group

Statistics, Returns and Capital adequacy five year review	**December 2006**	**12 months Pro forma December 2005**	**March 2005**	**March 2004**	**March 2003**	**March 2002**
Number of ordinaryshares in issue listed on the JSE (R000)	671,955	666,855	655,055	651,055	651,547	651,547
Dividend cover (times)	2.5	n/a	2.8	3.8	3.6	2.5
Dividend yield (%)	3.7	n/a	3.9	3.9	4.9	4.6
Earnings yield (%)	9.4	9.4	11.0	14.7	17.9	11.5
Price earnings ratio (times)	10.6	10.6	9.1	6.8	5.6	8.7
Price - to - book (times)	2.65	2.62	2.11	1.56	1.14	1.07
Share price (cents) - high	12,615	10,320	8,150	4,700	3,651	4,155
- low	9,650	7,125	4,320	3,000	2,500	2,410
- closing	12,510	10,100	7,540	4,664	2,940	2,530
Number of shares traded (.000)	35,926	33,492	27,892	17,931	13,894	12,081
Turnover in shares traded (%)	326,112	391,557	455,513	457,727	440,314	365,926
Market capitalization (Rm)	84,061.6	67,352.4	49,391.2	30,365	19,156	16,484
Dividend cover (cents)	473.0	n/a	295.0	182.0	145.0	116.0
Share statistics per ordinary share (cents)						
Basic earnings (cents)	1,216.8	950.3	831	697.5	520.5	260
Headline (Cents)	7,872	6,282	5,394	4,447	3,441	1,888
Diluted EPS (cents)	1,154.4	915.9	801.6	691.7	520.5	260
Dividend paid (cents)	473.0	n/a	295.0	182.0	145.0	116.0
Return on equity (%)	27.4	25.6	25.3	24.6	21.4	12.9
Cost to income ratio	54.6	57.0	56.6	57.1	60	60.3
Number of employees	35,154	33,543	32,515	31,658	32,356	35,283
Revenue per employee ®	0.87	0.76	0.70	0.65	0.56	0.46
Expenses per employee ®	-0.47	-0.44	- 0.39	-0.37	- 0.33	- 0.27
Headline earnings per employee ®	229.2	190.2	168.1	138.9	101.7	53.2
Total assets (Rm)	495,112	404,561	347,161	306,848	269,064	247,300
PBITDA	12,476	8,914	8,666	7,130	5,452	4,972
Cash Generation	28,658	18,271	11,017	9,293	7,715	6,988
Audit fees	69	129	70	49	39	32
Revenue	30,443	25,590	22,599	20471	17959	16078
Profit for the year	8,266	6,337		4,596	3,461	1,306

			5,494			
CFROTA	2.52%	2.20%	2.50%	2.32%	2.03%	2.01%
Cash to Total Assets Ratio	5.79%	4.52%	3.17%	3.03%	2.87%	2.83%

11.2 Appendix 2 – FNB performance

FNB background

FirstRand was created in April 1998 through the merger of the financial service interests of Anglo American Corporation of South Africa Limited (AAC) and RMB Holdings Limited (RMBH). The major companies involved at the time were the listed entities, First National Bank Holdings of Southern Africa Limited (FNBH) and the Southern Life Association Limited (Southern Life), which was controlled by AAC and Momentum Life Assurers Limited (Momentum), the holding company of Discovery Health Limited and Rand Merchant Bank Limited which was controlled by RMBH www.firstrand.co.za.

Momentum was used as the vehicle to effect the merger. In terms of the scheme of arrangement, Southern Life and FNBH shareholders received 675 Momentum shares in exchange for every 100 shares held. In addition, Momentum raised R5,1 billion by way of a rights issue in terms of which 572,7 million shares were issued at a price of 900 cents per share. The purpose of the rights issue was to facilitate the elimination of cross-holdings which existed between Southern Life and FNBH. Momentum changed its name to FirstRand Limited and was listed on the Johannesburg Stock Exchange on 25 May 1998. A day later a similar listing occurred on the Namibia Stock Exchange. The vision was to create a new group of companies structured with critical mass to take advantage of the convergence of banking and insurance products and services without the limitations imposed by minorities in operating companies.

Following pressure from shareholders to concentrate their efforts on mining and resources related activities, AAC and its associate De Beers undertook to sell their shares when prices were appropriate. De Beers sold their shares in the open market, while AAC reduced their holding in

FirstRand from 20,4% to 5,25% following a deal with Remgro Limited. Remgro exchanged a portion of their newly acquired FirstRand shares for shares in RMB Holdings. This exchange allowed RMB Holdings to increase its holding in FirstRand from 25% to 32,83%. Remgro retained a 9,32% interest in FirstRand. AAC disposed of the remainder of its shares over a period of time with the last of its shares being sold in December 2003 www.firstrand.co.za.

In February 2005 the Group sold an effective 10% interest in FirstRand to four broad-based empowerment groups, Kagiso Trust, Mineworkers Investment Trust ("MIT"), WDB trust and the FirstRand Empowerment Foundation (a newly created FirstRand BEE entity, with a mandate for broad-based transformation, and black South African FirstRand staff and non-executive directors.

The Group selected its BEE partners because they share FirstRand's objectives of enhancing broad-based BEE by addressing the needs of a wide constituency. In addition, the BEE partners have excellent reputations, successful track records and long standing relations with FirstRand and with each other, which will add value to shareholders and other stakeholders.

FirstRand represents a very different proposition to its peers in that it is the only fully integrated financial services group in South Africa. It is also the only one of the big-four South African retail, commercial and investment banking groups that is "owner-managed". The three original founders, GT Ferreira, Paul Harris and Laurie Dippenaar are all still actively involved in the management of the Group and collectively management own 23% of RMB Holdings Limited which in turn owns 29.5% of FirstRand Limited.

A unique business philosophy

The FirstRand business philosophy has been home-grown, developed and ingrained into the Group over the past 25 years and it has its roots in an entrepreneurial culture. At its heart is the understanding that people are the single most important resource and FirstRand aspires to create an environment that attracts and retains entrepreneurial self-starters. Although there is a bias for action, the Group aspires to act within the context of clearly thought through strategic and operational plans, hallmarked by innovative thinking which makes bottom line sense.

Participative, non-hierarchical decision making in the context of vigorous debate of the business case, with no holy cows and no barriers to communication, lies at the core of the way it does business. This is the common value system on which the entire group operates. This philosophy creates a liberating owner-manager culture. Strategies are owned and delivered on by the profit centre leaders because they conceived them. Every one of the Group's many profit centers has a strategy to grow market share, revenues and earnings. Each CEO is empowered and incentivised to deliver better than his/her budget at the end of the year. The structure and business philosophy means that FirstRand has many growth stories for onwards argued Nxasana.

FirstRand Group

Consolidated income statement for the year ended 31 December 2006

	Note	2006 Rm	2005 Rm
Net interest income		**15,012**	**13,184**
Interest and similar income	3	30,395	27,505
Interest expense and similar charges	4	-15,383	-14,321
Impairment loses on loans and advances		**-1,411**	**-706**
Impairment of advances - specific		-1,132	-756
Impairment of advances - portfolio		-279	50
Net fee and commission income	**5**	**12,009**	**9,878**
Net insurance premium income		14,088	11,835
Fee and commission expense		-2,079	-1,957
Net insurance premium income	**6**	**6,822**	**7,423**
Insurance premium revenue		7,758	8,111
Premium ceded to reinsurers		-936	-688
Net claims and benefits paid	**7**	**-6,174**	**-8,861**
Gross claims and benefits paid on insurance contrct		-6,875	-9,348
Reinsurance recoveries		701	487
Net gains from banking and trading activities	8	4,349	2,187
Net gains from investment activities	8	19,225	16,003
Other operating income	8	2,268	1,715
Increase in value of policyholder liabilities		-17,430	-13,447
Fair value adjustment to financial liabilities	9	-530	-232
Net operating income		**34,140**	**27,144**
Operating income before expenses	**10**	-20,402	-16,836
Operating expenditure		-20,344	-16,825
Other impairments		-58	-11
Share of profit of associates and joint venture companies		1,290	1,076
Income before discontunuedd operations		15,028	11,384
Loss on disposal of discontinued operations	37	0	-67
Operating profit before income tax		**15,028**	**11,317**
Taxation	11	-5,040	-3,610
Profit for the year		**9,988**	**7,707**
Attributable to:			
Ordinary equity holders of the group		8,825	7,137
Minority interest - preference shares		274	68
Total for equity holders of the company		**9,099**	**7,205**
Minority interest - ordinary shares		889	502
Profit for the year		**9,988**	**7,707**
Basic EPS (cents)	12	171.6	137.3
Diluted EPS (cents)	12	166.0	134.5
Headline earnings		156.9	132.4
Headline EPS (cents)		157.8	129.3
Diluted headline EPS (cents)		152.6	126.7

FirstRand Group

Consolidated balance sheet as at 31 December 2006

Assets	**Note**	**2006 Rm**	**2005 Rm**
Cash and short term funds	13	30,323	24,890
Money market investments		16,361	11,427
Advances		291,076	221,851
- Originated		236,370	175,475
- Held to maturity		698	7,449
- Available for sale		538	1,648
- Elected fair value		53,470	37,279
Derivative financial instruments	15	373,934	39,795
- Qualifying for hedge accounting		428	811
- Held for trading		373,506	38,984
Investment securities and other investments	16	165,054	125,582
- Financial instruments held for trading		28,348	20,728
- Investment securities		136,706	104,854
* Held to maturity		998	2,880
* Available for sale		22,947	16,100
* Elected fair value		112,761	85,874
Non-recourse investments		8,794	8,181
Commodities	16	676	439
Investment properties	17	6,141	4,172
Policy loans on insurance contracts		118	0
Policy loans on insurance contracts		0	530
Reinsurance assets	18	292	236
Insurance assets		1,766	1,881
Loans and receivables	19	6,046	11,548
Investments in associates and joint ventures	20	5,069	5,707
Taxation		7	118
Intangible assets	22	4,076	1,178
Property and equipment	23	5,011	4,610
Deferred taxation	24	1,043	594
Total Assets		**579,787**	**462,739**
Equity and liabilities			
Liabilities			
Deposits		317,840	245,793
- Deposits and current accounts		309,304	237,888
- Non recourse deposits	16	8,536	7,905
Short trading positions	26	25,967	19,919
Derivative financial instruments	15	22,370	30,264
- Qualifying for hedge accounting		257	249
- Held for trading		22,113	30,015
Creditors and accruals		16,848	23,257

Reinsurance liabilities		24	31
Policyholders' liabilities under investment contracts	32	93,720	48,844
Policyholders' liabilities under insurance contracts	33	40,740	49,001
Liabilities arising to third parties	34	1,725	1,027
Deferred revenue liability	35	248	0
Post retirement funding liability	27	1,635	1,733
Debentures and long - term liabilities	28	10,576	5007
Provisions	29	2,407	1,567
Taxation liability		1,024	185
Deferred taxation	24	5,159	3,877
Total liabilities		**540,283**	**430,505**
Shareholders' equity			
Ordinary share capital and share premium	30	3,635	4,396
Non-cumulative non-redeemable preference shares		4,519	2,992
Distributable reserves		24,854	20,284
Non distributable reserves		3,522	2,238
Total shareholders		**36,530**	**29,910**
Minority interest		2,974	2,324
Total shareholders' equity and liabilities		**579,787**	**462,739**

FirstRand Group

Consolidated cash flow statement for the year ended 31 December 2006

	Note	2006	2005
Cash flow from operating activities			
Cash receipts from customers	38.2	54,053	47,451
Cash paid to customers, employees and suppliers	38.3	-27,670	-28,013
Dividends received		1,327	988
Dividends paid		-3,651	-2,835
Net cash flows from operating activities	38.1	24,059	17,591
Increase in income earning assets	38.4	-98,204	-30,051
Increase in deposits and other liabilities	38.5	80,280	22,249
Net cash flows from operating funds		-17,924	-7,802
Taxation paid	38.6	-3,257	-3,298
Net cash inflow from operating activities		**2,878**	**6,491**
Cash flow from investing activities			
Purchase of property and equipment		-1,329	-388
Proceeds from disposal of equipment		105	0
Purchase of investments		-46	-10,484
Proceeds from disposal of investments		319	0
Proceeds from disposal of subsidiary	38.7	67	1,019
Purchase of associates		-269	-1,316
Proceeds from disposal of associates	38.8	907	0
Purchase of intangible assets		-36	-238
Net cash outflow from investment activities		**-282**	**-11,407**
Cash flow from financing activities			
Increase in/(repayment of) long - term borrowings		5,469	-693
Proceeds from share issue		1,526	3,000
Net cash inflow from financing activities		**6,995**	**2,307**
Net increase/(decrease) in cash and cash equivalents		9,591	-2,609
Cash and cash equivalents at the beginning of the year	38.9	36,317	40,253
Cash and cash equivalents at the end of the year		45,908	37,644
Cash and cash equivalents sold		-52	-1,335
Cash and cash equivalents bought		828	8
Total cash and cash equivalents at the end of the year		**46,684**	**36,317**

FirstRand Group

Statistics, Returns and Capital adequacy five year review

	2006	**2005**	**2004**	**2003**	**2002**
Number of ordinary shares in issue listed on the JSE (R000)	5634.1	5613.6	5476.4	5445.3	5445.3
Dividend cover (times)	2.45	2.38	1.89	2.37	3.03
Dividend yield (%)	**3.9**	**3.97**	**4.51**	**4.58**	**3.73**
Earnings yield (%)	0.06	0.09	0.08	0.10	0.12
Price earnings ratio (times)	10.78	10.56	9.23	8.50	9.24
Price - to - book (times)	2.52	2.4	2.30	2.10	1.80
Share price (cents) - high	2,120	1,480	1,049	815	905
- low	1,365	965	725	597	615
- closing	1,690	1,387	1,019	764	765
Number of shares traded (.000)	2,771	2,044	2,256	1,986	2,018
Turnover in shares traded (%)	95.22	77.86	55.80	41.71	41.66
Market capitalization (Rm)	49,491	25,423	19,701	14,086	15,580
Share statistics per ordinary share (cents)					
Basic earnings	171.6	137.25	109.3	86.2	82.5
Diluted EPS	165.96	134.5	106.8	84.5	82.5
Headline earnings					
- Basic	157.79	129.29	110.3	92.5	86.9
- Diluted	152.6	126.7	107.7	90.7	86.9
Dividend paid	65.99	55.1	46	35	28.5
- Interim	32	26.6	19.25	16.5	13.5
- Final	33.99	28.5	26.75	18.5	15
Return on equity (%)	25.1%	25.2%	25.4%	22.6%	25.2%
Cost to income ratio	53.8	56.6	56.9	57	55.5
Number of employees	43	39	36	35	34
Revenue per employee ®	707	705	650	640	633
Total assets (Rm)	579,787	462,739	424,821	393,674	374,766
PBITDA	16,376	12,471	7,711	5,712	4,516
Cash Generation	24,059	17,591	16,312	15,431	14,678
Audit fees	97	74	80	62	54
Profit for the year	8,825	7,137	5,676	4,516	4,495
Revenue (Rm)	30,395	27,505	23,417	22,412	21,528
CFROTA	2.82%	2.70%	1.82%	1.45%	1.21%
Cash to Total Assets Ratio	4.15%	3.80%	3.84%	3.92%	3.92%

11.3 Appendix 3 – Nedbank performance

Nedbank background

Nedbank Group Limited is a bank holding company, which operates as one of the four largest banking groups in South Africa through its principal banking subsidiaries, Nedbank Limited and Imperial Bank Limited, in which it has a 50,1% interest. The company's ordinary shares have been listed on JSE Limited since 1969. In 1973, Nedbank Group Limited was formed from the merger of Syfrets SA and Union Acceptances Limited and Nedbank Limited.

The group offers a wide range of wholesale and retail banking services through three main business clusters: Nedbank Corporate; Nedbank Capital; and Nedbank Retail. Nedbank Group focuses on southern Africa, with the group positioned to be a bank for all – both from a retail and a wholesale banking perspective. The principal services offered by the group are corporate and retail banking, property finance, investment banking, private banking, foreign exchange and securities trading. Nedbank Group also generates income from private equity, credit card acquiring and processing services, custodial services, collective investments, trust administration, asset management services and bancassurance. Imperial Bank focuses mostly on motor vehicle finance, which it markets through its Motor Finance Corporation (MFC) brand. In addition, it also offers property, medical and aviation finance.

Nedbank Group's head office is in Sandton, Johannesburg, with large operational centres in Durban and Cape Town, which are complemented by an extensive branch and support network throughout South Africa and facilities in Lesotho, Malawi, Namibia, Swaziland and Zimbabwe. These facilities are operated through

Nedbank Group's eight subsidiary and/or affiliated banks, as well as through branches and representative offices in London and on the Isle of Man to meet the international banking requirements of the group's South African-based multinational and private clients.

In August, 2006 the group unveiled its much anticipated black economic empowerment (BEE) transaction in Namibia which resulted in a broad range of black stakeholders acquiring direct ownership of N$308 million of the Old Mutual Group's Namibian businesses. The transaction incorporated three separate but inter-dependent BEE transactions for the Old Mutual Group subsidiaries in Namibia, namely Old Mutual Namibia, Nedbank Namibia and Mutual & Federal Namibia.

At the annual general meeting on 4 May 2005, shareholders formally approved the resolution to change the name of the holding company from Nedcor Limited to Nedbank Group Limited with effect from close of business on 13 May 2005. The group's BEE deal 'Eyethu' was announced. The deal broke new ground in the area of black economic empowerment as it was the first truly broad-based deal to be announced with tens of thousands of stakeholders. Valued at more than R3 billion, a broad range of black stakeholders including employees, retail and corporate clients, community groups, strategic black business partners (Wiphold and Brimstone) and non-executive directors acquired a holding of 9,33 % in the group.

2004 was a watershed year for the group as both structural and strategic changes were implemented to restore the performance of the group and lay a foundation for sustainable growth into the future. The group delivered on its commitments including:

- A thorough balance sheet clean-up and successful R5,15 billion rights offer
- Substantially reducing the bank's risk profile, including reduced foreign exchange exposure and volatility and reduced interest rate risk
- Increased management accountability with management teams restructured and 70 out of the top 100 management in new positions
- Implementation of a clear strategic direction with a three-year plan in place with detailed targets
- A comprehensive restructure, following the strategy, which included a devolution of product, processes, credit and branch operations from the centre into the line units, the sale of non-core assets and the decision to integrate Peoples Bank into Nedbank
- The merger was delivered and the group is on track for annual synergy savings of R700 million; and
- Improved management information systems and reporting, including improved activity justified transfer pricing, funds transfer pricing and capital allocation.

On 1 January 2003 the new Nedcor Group was formed, combining Nedcor, BoE, NIB and Cape of Good Hope Bank into one legal entity. New management structures came into effect allowing these entities to become a fully integrated business. The group now has banking licenses for Nedbank, Peoples Bank and Imperial Bank in South Africa, Gerrard private Bank in the United Kingdom and several licenses in the rest of Africa and the Middle East.

On 2 July 2002, the High Court gave its approval for Nedcor to acquire all the issued shares and convertible debentures of BoE, thereby paving the way for the Nedcor/ BoE merger. This final step in the approval process meant that the formation of one of South Africa's leading banks with assets of more than R270 billion became a reality. This merger heralded a new era in the history of BoE and Nedcor. For BoE, it offered the opportunity to continue a long and proud tradition of banking excellence and personal service. For Nedcor, the financial expertise and the quality of BoE's people will continue to further enrich its offering to the public. NIB minority shares were acquired by Nedcor Limited in October 2002. NIB was delisted. Nedcor Bank Limited changed its name to Nedbank Limited in November 2002.

Nedcor Limited and Old Mutual South Africa Limited announced the proposed merger of Permanent Bank and Old Mutual Bank to form a new banking operation focused on wealth management and financial planning in 2002. The merged operation is a custom-built bancassurance institution focused on the retail middle market in South Africa. Nedcor and Old Mutual each own 50 percent of the new bank. The new bank, operating as Old Mutual Bank, was to initially offer a full range of deposit and investment accounts, home loans, secured loans and other wealth management products.

Nedcor Bank acquired FBC Fidelity Bank Limited in 2001. BoE Corporation Limited unbundled its shares in BoE Limited and then delisted. The unbundling by BoE Corporation Limited of its shares in BoE Limited and its subsequent delisting could maybe mentioned here, along with the unbundling by BoE Limited of its share in RMBH, and the sale of other non-core investments which resulted in the challenges that faced the bank in 2002/3.

Nedbank Group

Consolidated Income Statement for the year ended 31 December 2006

	Note	**2006 Rm**	**5005 Rm**
Interest and similar income	8	28,521	23,234
Interest expense and similar charges	9	-17,558	-14,705
Net interest income		10,963	8,529
Impairement loses on loans and advances	24.1	1,483	1,189
Income from lending activities		9,480	7,340
Non - interest revenue	10	9,468	8,469
Operating income		**18,948**	**15,809**
Total operating expenses		**11,886**	**11,017**
Operating expenses	11	11,740	10,469
Merger and recovery programme expenses	12.1	0	155
BEE transaction expenses	12.2	146	393
Indirect taxation	13	345	223
Profit from oprations before non - trading and capital items		**6,717**	**4,569**
Non - trading and capital items	14	124	701
Profit from oprations		6,841	5,270
Share of profit of associates and joint ventures	28.2	153	167
Profit before direct taxation		6,994	5,437
Direct taxation	15.1	1,933	1,140
Profit for the year		**5,061**	**4,297**
Profit attributable to:			
Equity holders of the parent		4,533	3,836
Minority interest - ordinary shareholders		309	233
Minority interest - preference shareholders		219	228
		5,061	4,297
Basic EPS (cents)	16	1,135	966
Diluted EPS (cents)	16	1,099	958
Dividend paid per share (cents)	17.1	394	181
Dividend declared per share (cents)	17.1	493	290

Nedbank Group

Consolidated Balance Sheetas at 31 December 2006

	Note	2006 Rm	5005 Rm
Assets			
Cash and cash equivalents	18	12,267	11,142
Other short - term securities	19	25,756	17,014
Derivative financial instruments	20.1	15,273	16,176
Government and other securities	22	22,196	22,658
Loans and advances	23-24	308,563	248,408
Other assets	25	12,468	11,601
Clients' indebtedness for acceptances		2,577	1,291
Current taxation receivables	26	161	134
Investment securities	27	7,155	6,875
Non - current assets held for sale	29	490	385
Investments in associates and joint ventures	28	907	657
Deferred taxation asset	30	120	680
Investment property	31	158	163
Property and equipment	32	3,377	3,095
Long - term employee benefit assets	33	1,444	1,225
Computer software and capitalized development costs	34	1,266	1,320
Mandatory reserve deposits with central bank	18	7,039	5,747
Goodwill	35	3,695	3,687
Total assets		**424,912**	**352,258**
Total equity and liabilities			
Ordinary share capital	36.1	395	402
Ordinary share premium		9,727	10,465
Reserves		14,994	11,623
Total equity attributable to equity holders of the parent		**25,116**	**22,490**
Minority shareholders' equity attributable to:			
- Ordinary shareholders		1,202	1,049
- Preference shareholders	36.2	3,070	2,770
Total equity		**29,388**	**26,309**
Derivative financial instruments	20.1	12,904	17,055
Amounts owed to depositors	37	324,685	261,311
Other Liabilities	37.4	37,847	32,357
Liabilities under acceptances		2,577	1,291
Current taxation liabilities	26	434	466
Other Liabilities held for sale	29	417	0
Deferred taxation liabilities	30	1,649	959
Long - term employee benefit liabilities	33	1,215	1,071
Investment contract liabilities	38	5,278	4,166
Long - term debt instruments	39	8,518	7,273
Total liabilities		**395,524**	**325,949**
Total equity and liabilities		**424,912**	**352,258**

Nedbank Group

Consolidated Cash Flow Statement for the year ended 31 December 2006

	Note	**2006 Rm**	**5005 Rm**
Cash generated by operations	43.1	**9,297**	**6,898**
Cash received from clients	43.2	37,806	31,329
		-	
Cash paid to clients, employees and suppliers	43.3	28,561	-24,788
Dividends received on investments		173	140
Recoveries on loans previously written off		296	226
Effects of exchange rate changes on cash and cash equivalents		-417	-9
Change in funds for operating activities		-3,739	2,023
		-	
Increase in operating assets	43.4	71,591	-17,986
Increase in operating liabilities	43.5	67,852	20,009
Net cash from operating activities before taxation		5,558	8,921
Taxation paid	43.6	-953	-852
Cash flow from operating activities		**4,605**	**8,069**
Cash flow utilised by investing activities		**-1,057**	**-927**
Acquisition of property and equipment		-1,097	-750
Proceeds on disposal of property and equipment		57	132
Net disposal(acquisition) of investment banking assets		6	-228
Net acquisition of investments in associates and other investments		-273	-82
Disposal of investments in subsidiary companies net of cash	43.7	286	1
Acquisition of investments in subsidiary companies net of cash	43.8	-36	0
Cash flow utilised by financing activities		**-1,131**	**-303**
Ordinary shares (repurchased/issued)		-745	581
Increase/decrease in long - term debt instruments		1,245	-36
Shares issued/repurchased by subsidiary company		150	107
Dividends paid to ordinary shareholders		-1,562	-727
Preference dividends paid		-219	-228
Net increase in cash and cash equivalents		2,417	6,839
Cash and cash equivalents at the beginning of year		16,889	10,050
cash and cash equivalents at the end of year		**19,306**	**16,889**

Nedbank Group

Five year review: Statistics and ratios

	2006	**2005**	**2004**	**2003**	**2002**
Number of ordinaryshares in issue listed on the JSE (R000)	451,00 0	443,00 0	394,00 0	275,00 0	271,00 0
Dividend cover (times)	-56	-41			
Dividend yield (%)	3.7%	2.9%	1.5%	3.9%	4.6%
Earnings yield (%)	8.3%	8.0%	6.2%	0.3%	8.8%
Price earnings ratio (times)	12	13	16	326	11
Price - to - book (times)	2.1	1.8	1.7	1.5	1.8
Share price (cents) - high	13,950	10,280	7,999	11,850	15,400
- low	9,790	6,700	5,240	5,640	9,500
- closing	13,350	10,000	7,780	6,203	11,110
Number of shares traded (.000)	191700	168100	245800	216000	143.8
Turnover in shares traded (%)	48	42.3	68.1	73.7	56.8
Market capitalization (Rm)	60.2	44.3	30.7	17.1	30.1
Price earning ratio	12	13	16	326	11
Dividend cover (cents)	2.25	2.75	4	0.1	1.9
Cost to income ratio	58.2	64.8	71.8	80.2	65.4
Share statistics per ordinary share (cents)					
Basic earnings (cents)	1135	966	423	-546	346
Headline (Cents)	1110	797	483	19	979
Diluted EPS (cents)	1099	958	422	-545	343
Dividend paid (cents)	493	290	120	240	515
Return on equity (%)	18.6%	15.5%	11.0%	0.4%	14.9%
Price earning ratio					
Number of employees	24,034	22,188	21,103	24,205	25,240
Revenue per employee ®	788,38 3	712,50 2	664,69 2	466,10 2	415,76 9
Expenses per employee ®	494,54 9	496,53 0	518,36 2	427,35 0	288,59 0
Headline earnings per employee ®	184,53 0	142,73 5	82,595	2,222	111,48 6
Total assets (Rm)	424,91 2	352,25 8	327,84 0	313,11 3	324,76 7
PBITDA	7,616	6,528	1,934	-2,826	-493
Cash Generation	9,297	6,898	3,978	2,124	1,401
Audit fees	60	68	64	66	31
Profit for the year	5,061	4,297	1,882	-1,334	1,078
CFROTA	1.79%	1.85%	0.59%	-0.90%	-0.15%
Cash to Total Assets Ratio	2.19%	1.96%	1.21%	0.68%	0.43%

11.4 Appendix 4 – Standard Bank performance

Standard Bank background

Standard Bank is a South African-based financial services company with a global presence. We operate from 17 African countries and 21 countries on other continents, including the key financial centres of Europe, the Americas and Asia. Standard Bank was established as the Standard Bank of British South Africa Limited, and incorporated in London in 1862. The word "British" was dropped from the title in 1883. Standard Bank Group is listed on the JSE Securities Exchange, share code SBK.

In 1962 The Standard Bank of South Africa (SBSA) was formed and registered as a South African company, operating as a subsidiary of Standard Bank in London (subsequently to become Standard Chartered Bank plc). Standard Bank Group was established in 1969 as Standard Bank Investment Corporation - the holding company of SBSA. Standard Chartered sold its 39% stake in Standard Bank Group in 1987, transferring complete ownership of the holding company to South Africa.

The re-establishment of Standard Bank's African links began in 1988, when a branch was set up in Swaziland. In 1992 the group opened a Botswana bank and acquired a major African operation: the long-established ANZ Grindlays network in Botswana, Kenya, Uganda, Zaire, Zambia and Zimbabwe, with minority holdings in Ghana and Nigeria.

The group has also continued to expand internationally. Standard Bank London was established in 1992 and in the same year operations in Jersey and the Isle of Man were acquired. Two years later, the Isle of Man bridgehead was broadened considerably with the acquisition of Standard Chartered's banking activities on the island. Standard Bank also has a full branch in Taipei and full bank status in Russia, Hong Kong, Singapore and Brazil. Standard Bank Group completed the acquisition of Jardine Fleming Bank Limited (JF Bank) in July 2001. The group has a wide representation which spans 18 African countries and 21 countries outside of Africa with an emerging markets focus.

Standard Bank's equity is widely dispersed compared to most other similar institutions in South Africa. The Public Investment Corporation is the biggest beneficial shareholder and holds 13,3% of its shares. Other large holders among the more than 25 000 shareholders are Old Mutual (8, 9%), Tutuwa Group (7,6%), Liberty Group (2,8%), Investment Solutions (3,0%) and Sanlam Group (2,6%). Non-residents hold approximately 23, 2%.

Standard Bank Group is one of the big four full-service South African banks. The group operates in a range of banking and related financial services. The group has a wide representation which spans 18 African countries and 21 countries outside of Africa with an emerging markets focus.

Standard Bank Group

Consolidated Income Statement for the year ended 2006

	Note	2006 Rm	2005 Rm
Income from banking Activities		**36,366**	**28,981**
Net interest income		16,654	13,015
Interest Income	25.1	50,855	38,625
Interest expense	25.2	34,201	25,610
Nono - Interest Revenue	25.3	19,712	15,966
Income from Investment and Life Insurance activities		**59,344**	**53,066**
Net Investment premium	25.4	20,066	18,979
Investment Income and Gains	25.5	37,568	32,240
Management and Service fee income		1,710	1,847
Total Income		**95,710**	**82,047**
Credit Imparement Charges	25.6	2,733	1,207
Benefits due to Policyholders		47,896	41,529
Net Insurance benefits and claims		38,140	32,816
Fair value adjustment to Policyholders' liabilities under investment		8,276	6,834
Fair value adjustment on third party fund interests		1,480	1,879
Income after credit impairement charges and Policyholders' benefits		**45,081**	**39,311**
Operating expenses in banking activities		19,652	16,441
Staff costs	25.7	11,001	9,370
Other operating expenses	25.8	8,651	7,071
Operating expenses in investment and life insurance activities		**6,486**	**8,006**
Acquisation costs - insurance and investment contracts		2,413	3,594
Other operating expenses	25.8	4,073	4,412
Net income before goodwill		**18,943**	**14,864**
Goodwill Impairement	25.9	15	421
Net income before associates and joint ventures		18,928	14,443
Share of profits from associates and joint ventures	12	275	226
Net income before indirect taxation		19,203	14,669
Indirect taxation	27.1	841	778
Profit before direct taxation		18,362	13,891
Direct taxation	27.2	5,852	4,312
Profit for the year		12,510	9,579
Attributable to minorities		1,723	921
Attributable to equity holders of the parent		**10,787**	**8,658**
Attributable to preference shareholders		269	226
Attributable to ordinary shareholders		10,518	8432

Basic EPS (cents)	29	864.5	699.7
Diluted EPS (cents)	29	820.1	668.4
Dividend per share (cents)	29	320.0	267.0

Standard Bank Group

Consolidated Balance Sheet as at 31 December 2006

	Note	2006 Rm	2005 Rm
Assets			
Cash balances with banks	3	74,154	71,244
Short term negotiable securities	4	29,175	25,931
Derivative assets	5	100,832	101,502
Trading assets	6	81,569	38,387
Investments	7	186,896	147,146
Investment property	8	13,200	12,637
Loans and advances	9	448,411	338,773
Loans and advances to banks	9	35,677	29,805
Loans and advances to customers	9	412,734	308,968
Current and deferred taxation	10	1,043	990
Other assets	11	16,975	13,237
Non - current assets for disposal	32	0	2,380
Interest in associates and joint ventures	12	8,584	6,417
Goodwill and other intangible assets	13	2,910	2,453
Property and equipment	14	5,242	4,593
Total Assets		**968,991**	**765,690**
Equity and liabilities			
Equity		**55,244**	**41,692**
Equity attributable to ordinary shareholders		43,326	32,931
Ordinary share capital	15	136	135
Ordinary share premium	15	2,303	2,107
Reserves		40,887	30,689
Preference share capital and premium	15	5,503	2,991
Minority interest		6,415	5,770
Liabilities		**913,747**	**723,998**
Derivative Liabilities	5	103,122	103,482
Trading liabilities	17	36,790	21,462
Deposit and current accounts	18	545,164	413,623
Deposits from banks	18	48,374	27,584
Deposits from customers	18	496,790	386,039
Current and deferred taxation	19	7,880	6,926
Other liabilities	20	34,323	23,759
Non - current liabilities for disposal	32	0	1,267
Policyholders' liabilities	21	168,898	140,835
Subordinated debt	22	17,570	12,644
Total Equity and Liabilities		**968,991**	**765,690**

Standard Bank Group

Consolidated Cash flow statement for the year ended 2006

	Note	**2006 Rm**	**2005 Rm**
Operating Activities			
Cash receipts from customers	31.2	103,353	83,651
Cash paid to customers, employees and suppliers	31.3	-83,559	-67,415
Dividends received	31.4	3,969	3,075
Net cash flows from operating activities	31.1	23,763	19,311
Changes in operating funds			
		-	
Increase in income - earning assets	31.5	147,418	-64,271
Increase in deposits and other liabilities	31.6	142,993	90,457
Net cash flows (used in/from) operating funds		-4,425	26,186
Direct taxation paid	31.7	-5,176	-2,419
Investing activities			
Capital expenditure - Property		-341	-395
- Equipment, furniture and vehicles		-1,433	-1,153
- Intangibles		-570	-203
Proceeds from sale of - Property		103	124
- Equipment, furniture and vehicles		163	187
Net sale of investment properties		617	281
Net increase in investments by insurance operations		-12,915	-874
Acquisition of minority share - unincorporated property partnership		0	-856
Proceeds from sale of subsidiaries	32.1	1,321	0
Net cash paid on acquisition of subsidiaries	31.8	0	-1,771
Net disposal of reinsurance assets and other investments		0	73
Increase in investment in existing subsidiaries		-267	-526
Net increase in investment in associates		-189	-408
Net cash flows used in investing activities		**-13,511**	**-5,521**
Financing activities			
Proceeds from issue of share capital to shareholders		2,811	245
Net proceeds from issue and repurchase of share capital to minorities		0	24
Repurchase of company shares		-102	-679
Increase in subordinated debt		4,682	2,966
Dividends		-5,204	-4,610
Net cash flows from/(used in) financing activities		**2,187**	**-2,054**
Effects of exchange rate changes on cash and cash equivalents		3,316	2,368
Net increase in cash and cash equivalents		6,154	37,871
Cash and cash equivalents at the beginning of the year		97,175	59,441
Reclassified to non - current assets for disposal	32	0	-137
Cash and cash equivalents at end of the year	31.10	**103,329**	**97,175**

Standard Bank Group

Statistics, Returns and Capital adequacy seven year review

	Note	2006	2005	2004	2003	2002
Number of ordinary shares in issue listed on the JSE (R000)						
- weighted average		1,358,415	1,353,382	1,245,786	1,334,099	1,328,192
- end of period		1,362,633	1,352,383	1,352,108	1,338,730	1,331,078
Dividend cover (times)		2.5	2.5	2.5	3.1	3.2
Dividend yield (%)		3.4	3.5	3.5	3.9	4.1
Earnings yield (%)		8.4	8.8	8.5	12	13.1
Price earnings ratio (times)		11.9	11.4	11.8	8.3	7.6
Price - to - book (times)		2.6	2.7	2.7	1.8	1.5
Share price (cents) - high		9,650	7,875	6,750	3,960	3,810
- low		6,850	5,750	3,686	2,650	2,595
- closing	21	9,450	7,581	6,580	3,918	3,015
Number of shares traded (.000)		1,014,873	841,835	892,633	908,179	673,703
Turnover in shares traded (%)		74.5	62.2	66.0	67.8	50.6
Market capitalization (Rm)	22	128,769	102,524	88,969	52,451	40,132
Share statistics per ordinary share (cents)						
Basic earnings (cents)	22	864.5	699.7	581.4	478.1	376.2
Headline earnings (cents)	20	837.4	702.3	570.3	470.7	396.3
Diluted EPS (cents)						
Dividend paid (cents)	25	320	267	231.5	151	124
Return on equity (%)		25.2	25.2	24.2	22.9	20.3
Cost to income ratio		53.5	56.1	57.5	56.3	57.4
Price earnings ratio						
Return on ordinary shareholders' equity (%)		25.2	25.2	24.2	22.9	20.3
Number of employees						
Revenue per employee ®						
Expenses per employee ®						
Headline earnings per employee ®						
Total assets (Rm)		968,991	765,690	625,537	540,566	393,353
PBITDA		19,463	14,474	10,200	8,946	7,467
Cash Generation		23,763	19,311	16,550	12,743	10,577
Audit fees		72	61	49	40	33
Profit for the year		10,551	8,753	7,244	6,026	4,841
Revenue (Rm)		129,911	107,657	99,831	95,840	89,192
CFROTA		2.01%	1.89%	1.63%	1.65%	1.90%
Cash to Total Assets Ratio		2.45%	2.52%	2.65%	2.36%	2.69%

11.5 Appendix 5 – Interviewee profile

ABSA Group

1. **Dr D C Cronje, *Dcom – Non Executive Chairman***
   Dr Danie Cronje is 59 years old with a Doctorate in Commerce (Dcom) and he is the chairman of ABSA Group since 1987. He is also the chairman for Sage Group, ABSA Foundation, ABSA Group Retirement Fund, and director of Idion Technology Holdings Ltd. His executive career dates back to 1975 when he joined Volkskas, where he held various positions in the Merchant Bank division. He became Deputy CEO subsequently CEO of ABSA after the name change until 1997. Danie has 31 years experience with ABSA.

2. **Dr S Booysen, *CA (SA), Dcom – Chief Executive Officer***
   Dr Steve Booysen is 42 years old with a Doctorate in Commerce and is Chartered Accountant. He is the CEO for ABSA Group since 2004. After completing his articles with Ernst and Young in 1983 he became a lecturer in accounting at the University of South Africa until 1988. He was appointed Senior Manager: Finance at TrustBank until 1994 when he was appointed General Manager: Group Finance at ABSA. He later joined ABSA Corporate and Merchant Bank where he rose to Deputy Operating Executive, the Group Executive Director before he was appointed Group CEO.

3. **J H Schindehutte, *Bcom (Hons), CA (SA), HDip Tax – CFO***
   Jacques is 46 years old and is the CFO for ABSA Group after joining the group in 1999 as Group Executive: Finance. He is responsible for Group Finance, office of the General Counsel, Group Economic Research, Investor Relations and Group Secretariat. He served his articles with Ernst and Young before joining Portnet and Transnet until 1999.

4. **Dr D Baloyi, *PHD (International Education Development) – Independent NED***

   Danisa is 50 years old and she is an Independent board member of ABSA Group since 2004. She currently sits on 8 boards and she is an Executive Director of the National Black Business Caucus.

5. **A S Du Plessis, *Bcom, CA (SA), HDip Tax, AMP – Independent NED***

   Attie is 62 years old and has been an Independent director since 1992. He chairs the Group Audit, Group Risk, Credit, and Board Lending Committees. He is also Chairman for Gencor Ltd, Sanlam Ltd, KWV Group Ltd and various other companies besides being an Executive Director for Sankop Ltd.

6. **L W Maasdorp, *BA, Msc Economics – NED***

   Leslie is 39 years old appointed in 2004 as a non-executive director representing the interests of the BEE Company Banke consortium. He is Chairman of Trans Caledon Tunnel Authority, South Africa Weather Services and sit on the boards of Coega Development Corporation, Johannesburg Property Company and Yard Capital

7. **T M C Sexwale, *Certificate in Business Studies - NED***

   Tokyo is 53 years old appointed to the ABSA Group board in 2001 representing the BEE consortium Batho Bonke. He is the owner and Executive Chairman of Mvelaphanda Holdings Pty Ltd, Chairman of Northam Platinum Ltd, Trans Hex Group Ltd, Gold Fields Ltd, former member of the ANC National Executive Committee and Premier of Gauteng.

8. **Group Secretariat – W R Somerville, *ACIS, ACMA, Dip Corp Law***
   William is 49 years old and is the Group Company Secretary since 1990.

FirstRand Group

10 T Ferreira *Bcom (Hons) B (B&A), MBA – Non Executive Chairman*

Gerrit is 59 years old and has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he was elected as executive chairman. When RMB Holdings was founded in 1987 he was appointed chairman, a position which he still holds. Following the formation of First Rand in 1998 he was appointed non-executive chairman. He is a member of the Council of the University of Stellenbosch.

Directorships

FirstRand – memberships Directors' affairs and governance committee Remuneration committee.
First Rand Bank Holdings – Chairman Glenrand MIB Momentum Group RMB Holdings – Chairman VenFin.

11 L Dippenaar *CA (SA), Mcom – Chief Executive Officer*

Lauritz is 58 years old and he graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent three years with the Industrial Development Corporation before becoming co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director. He was appointed managing director in 1988, which position he held until 1992 when RMB Holdings

("RMBH") acquired a controlling interest in Momentum Life Assurers, the fifth largest insurance company in South Africa at that rime. He was appointed as executive chairman of that company, a position he held until being appointed chief executive officer of First Rand in 1998.

Directorships

FirstRand – memberships Audit committee Executive committee – chairman
Discovery Holdings – Chairman First Rand Bank Holdings Momentum Group – Chairman OUTsurance – Chairman RMB Asset Management RMB Holdings.

12* P K Harris *MCom – Chief Executive Officer

Paul is 57 years old and has graduated from the University of Stellenbosch and joined the Industrial Development Corporation where he served for a number of years. He was a co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director of the bank. He spend four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 where he was appointed deputy managing director of RMB. In 1992 he took over as managing director and chief executive officer. He has been chief executive officer of FirstRand Bank Holdings since July 1999.

Directorship

FirstRand – membership's Executive committee

FirstRand Bank Holdings, Momentum Group, Remgro Limited, RMB Holdings.

13 **K C Shubane** ***BA (Hons); MBA – Independent NED***

Khehla is 51 years old and graduated at University of the Witwatersrand. Prior to this he was a student at the University of the North where his studies were terminated following his arrest for political activities, conviction and sentence which he served on Robben Island. Upon his released he was employed at Liberty Life for a short time. He served on various political organizations until joining the Centre for Policy Studies in 1988. He is an author and has co-authored several political publications and is a member of the board of the Centre for Policy Studies.

Directorship

FirstRand memberships – Directors' affairs and governance committee, FCB South African, Newhco, Nurcha, RMB Holding.

14 J P Burger ***Bcom (Hons), CA (SA)***

Johan is 48 years old and he is the founding member of the bank. He has been with the bank since its incorporation as the CFO.

15 **S E Nxasana Bcom, Bcompt** ***(Hons), CA (SA) – CEO FirstRand Banking Group***

Sizwe is 49 years old, he started his career at Unilever. In 1989, he established Sizwe & Company, the first black owned audit practice in Kwazulu Natal. In 1996, he became the founding partner of Nkonki Sizwe Ntsaluba, the first black owned national firm of accountants and was national Managing Partner until 1998 when he joined Telkom SA as Chief Executive Officer. He held this position until 2005.

His experience in the financial sector includes being a NED of NBS Boland Bank, DBSA from 1995 to 1998, and Chairman of Mesele-Hoskens Insurance Group from 1994 to 1996. He joined the board of FirstRand Bank Holdings in 2003 and was appointed CEO from 2006. During the same year he was appointed a NED of FirstRand.

Board membership: FirstRand Executive Committee, Zenex Trust

16 **N N Gwagwa *BA (Fort Hare); MTRP (Natal); MSc (cum laude) (London); PhD (London) – Independent NED***

Nolulamo is 47 years old. She worked as a town planner in the private, public and NGO sector between 1981 and 1986, whereafter she proceeded to further her studies. In 1992 she joined the University of Natal as a senior lecture in the Department of Town and Regional Planning. In 1995 she was appointed as a deputy director general in the national Department of Public Works, where she was responsible for the national public works programme and the transformation of the construction industry. From 1998 to 2003 she was the chief executive office of the Independent Development Trust. She is currently an independent development consultant.

Directorship

FirstRand – memberships Directors' affairs and governance committee; Financial sector charter and transformation monitoring committee.

ACSA, Development Bank of South Africa.

17* S E N Sebotsa *LLB (Hons); LSE; MA (McGill); SFA – NED

Sonja is 34 years old. Her studying areas were Law, Business and Economics. She started her career in investment banking at Deusche Morgan Grenfell Johannesburg in 1997 working on M & A transactions, privatizations and BEE deals. She left Deutsche Bank almost six years later, after having spent some time working in their London and Tokyo offices. Leaving Deutsche Bank as a Vice President in late 2002 she took up an executive position with the WDB Group where her role largely involves negotiating and executing BEE transactions on behalf of the WDB's sole shareholder, the WDB Trust.

Directorship

FirstRand – membership Directors' affairs and governance committee
Adcorp Holdings, Makalani Holdings, Paracon Holdings, Willis South Africa.

18* M W King *CA (SA); FCA – Independent NED and Chairman of the King 11 Report

He is 69 years old. He graduated at the University of Witwatersrand as a lawyer. He qualified as a chartered accountant with Deloittes. In 1961 he joined Union Acceptances and was deputy managing director from 1972 to 1974. He left to join Anglo American Corporation of SA, and was finance director from 1979 to 1997. He became executive deputy chairman in 1997, executive vice-chairman of Anglo American plc in 1999, and retired in May 2001. He served on the board of

Barclays Bank DCO South Africa, whose name was changed in 1987 to First National Bank of Southern Africa.

Directorship

FirstRand – membership Audit committee – Chairman Directors' affairs and governance committee Remuneration committee. FirstRand Bank Holdings, African Rainbow Minerals, Sturrock and Robson Holdings, The Tongaat-Hulett Group

Nedbank Group

19 Dr R J Khoza, BA (Hons) Psychology (UNIN), MA Markerting Management (University of Lancaster), EngD (University of Warwick), IPBM-IMD (Lausanne), PMD (Havard) – Non Executive Chairman

Reuel is 58 years old, a businessman, a director of companies, was appointed to the Nedbank board in 2005. He is a Chairman of Aka Capital, Nedbank Group, Corobrik, NEPAD Business Foundation and Murray and Robberts Cementation. He is also a board member of Nampak Limited, Protea Hospitality Group, Old Mutual Plc and Gold Reef Resorts Limited. Reuel is also a president of the Institute of Directors and in this capacity served on the King 11 Committee on Corporate Governance. He is founder of the Black Management Forum and former Chairman of Eskom.

20 M L Ndlovu, Dip LR (Unisa), MAP (Wits), EDP (North West), AMP (Havard) – NED Vice Chairman

Maduke is 56 years old, was appointed to the Nedbank board in 1994. He is a director of 20 companies besides being a member of four committees.

21 T A Boardman, Bcom, CA(SA) CEO

Thomas is 58 years old, was appointed in 2002 to turnaround the bank after its near collapse. He was previously CEO and executive director of BOE Limited and before that he was a director of Boardmans and Sam Newman Limited and BOE International Holdings Limited and Northwind Investments. He is a NED of Mutual and Federal Insurance Company Limited a subsidiary of Nedbank and The Banking Association of South Africa.

22 M Brown, Bcom (Hons), CA(SA) Financial Director

Mike is 41 years old, after qualifying as a CA at Deloitte and Touche he joined NBS Treasury department in 1993. He then moved to BOE corporate as General Manager and was later appointed MD in 1999. After the merger of Nedbank and BOE in 2002 he was appointed MD of Property and Asset Finance.

In June 2004 Mike was appointed FD and executive director of Nedbank Group. His area of responsibility include Asset and Liability Management, Group capital management, Tax, Financial reporting, and investor relations.

23 T C P Chikane, Bcom (Hons), CA(SA) Independent NED

Thenjiwe is 42 years old, was appointed to the board in 2006 and she is the CEO of MGO Consulting. She was previously Head of the Gauteng Department of Finance and Economic Affairs and she is a board member of Development Bank of Southern Africa, PetroSA and State Information Technology Agency

24 Prof B De Lacy Figaji, Bsc (Eng) Dip Tertiary Edu Med, DEd (Coventry University), DLitt (hc) (California)

Prof Brian is 63 years old, was appointed to the board in 2002. Brian is the Chairman of HHO Africa Pty Ltd, I & J Limited, MARIB Holdings. He is a board member of PetroSA, Cape Lime Pty Limited, ASSET (Educational Trust) (Trustee), Development Bank of Southern Africa and a former Vice – Chancellor of the Peninsula Technikon.

25 G T Serobe, Bcom (Unitra), MBA (Rutgers)

Gloria is 48 years old, was appointed to the board in 2002 and she is the CEO of Wipcapital. She is the founder and executive director of WIPHOLD. She was previously the executive director, finance at Transnet and serves on the boards including JSE Limited, FSC Council, Old Mutual Life Assurance Company South Africa Limited.

Standard Bank Group

26* Cooper, *CA (SA) – Non Executive Chairman

Derek is 66 years old and was appointed Chairman since 1993. He is also Chairman of Standard Bank Africa, Liberty Group and Liberty

Holdings, Standard Bank Plc and president of Business Leadership South Africa.

27 **J Maree, *Bcom, MA (Oxford) PMD (Harvard) – Chief Executive Officer***

Jacko is 51 years old and was appointed CEO in 1997. He is a director of Standard Bank, Liberty Group, Liberty Holdings, Stanbic Africa Holdings, SBIC Investments SA, Standard International SA and Chairman of Standard Bank Plc.

28 **S Macozoma, *BA, (Unisa) BA (Hons) (Boston) - NED***

Saki is 49 years old, a businessman and he is a board member of 12 companies. He is a board member of many companies including Standard Bank Group, The Standard Bank of SA, Liberty Group, Liberty Holdings, Deputy Chairman of Safika Holdings, Chairman of Andisa Capital, Cahirman of Business Trust, Chairman Lliso Consulting, Chairman of Stalib, Tutuwa Strategic Holdings 2 and VW South Africa. He sits on different committees within the companies he is a board member.

29 **C Ramaphosa, *BProc (Unisa) - NED***

Cyril is 54 years old, a businessman and a board member of 12 companies. He is a board member of Standard Bank Group, Standard Bank South Africa, Alexander Forbes, Macsteel Holdings, Mondi South Africa, MTN Group (Chairman), MTN International (Chairman), SAB Miller, SASRIA, Shanduka Holdings (Chairman), The Bidvest Group (Chairman) and Tutuwa Strategic Holdings 1

30 Dr C Strauss, BA, PHD (Rhodes), MS(Cornell), AMP (Havard), FIBSA, DEcon (hc) (Rhodes, Dsc (hc) (Pretoria)

Conrad is 71 years old and was appointed to the board of Standard Bank Group in 1984. He is a board member of Standard Bank Group, Standard Bank SA, African Oxygen and Hans Merensky Holdings.

31 K Moroka, BProc, (Uni of the North), LLB (Wits)

Kgomotso is 52 years old and was appointed to the board of Standard Bank Group in 2003. She is a director of Standard Bank Group, Standard Bank SA, Electronic Media Network (M-Net), Gobodo Forensic and Investigative Accounting (Chairperson) New Seasons Investments Holdings and South African Breweries.

32 S Ridley, Bcom (Natal), CA(SA), AMP (Oxford)

Simon is 51 years old and he joined the group in 1999 and was appointed Financial Director in 2002.

Other Corporate Governance Practitioners

33 Advocate J Myburgh

John is 52 years old and trained as a lawyer and was admitted to the bench 32 years ago. He chairs a lot of boards and is a member of the SARB advisory board and he is a lecturer of law.

34 T Dixon

Tony is 53 years old and he is an executive director of the IOD. He is an advisor and sits on different boards. Tony is also a lecture of Corporate Governance

35 Prof Bob Garratt

Prof Bob Garratt is the Chairman of the international corporate governance expert, author and professor extraordinaire at the USB.
Prof Bob Garratt is a company chairman, consultant and academic working on corporate governance, board and director performance, and strategic thinking issues. He is based in London and works on five continents. His consulting experience of board and business issues covers organisations from large corporates to family businesses, professional practices, parastatals, non-profit organisations, central governments and local communities.

He is a founder member of The Commonwealth Association for Corporate Governance. He is on the Chartered Accreditation Committee, Examinations Board, leads the *Developing Strategic Thought* programmes, and is an External Examiner of the Institute of Directors, London. He helped to form the China-EEC Management Programme in Beijing in 1983 (the first Chinese MBA), and *The Learning Symposium* group. He has worked with many financial services institutions including the Saudi Arabian Monetary Authority on corporate governance for Banking Supervisors, and is working with the IMF in Washington on its governance.

He is visiting professor at the Cass Business School, City University, London, where his work spans the Centre for Research in Corporate Governance, and the Centre for Leadership, Learning and Change. He is professor extraordinaire at the University of Stellenbosch Business School.

In 2002 he won the Shareholder Value corporate governance essay prize sponsored by the European Business Forum and PwC/IBM; and in 2004 The Academy of Corporate Governance, Hyderabad, Writing Excellence prize. His books include: The Fish Rots From The Head: The Crisis in our Boardrooms (1996 and 2003); Developing Strategic Thought (ed) (1994 and 2003); Learning to Lead (1991); The Learning Organisation: Developing Democracy At Work (2000); and Twelve Organising Capabilities: Valuing People At Work (2000). Thin On Top: Why Corporate Governance Matters was published in 2003. He is on the Editorial Advisory Boards of Journal of Business Studies; Development and Learning in Organisations; Action Learning, and Organisations and People.

36 Prof Mervyn King

Prof. King is a Senior Counsel and former Judge of the High Court of South Africa. He has chaired and has been a director of several companies listed on the Johannesburg, London and Luxembourg Stock Exchanges. He is chairman of the King Committee on Corporate Governance, chairman of the board of the Global Reporting Initiative, president of the Advertising Standards Authority, a member of the Securities Regulation Panel, past president of the Commonwealth Association of Corporate Governance, a former governor of the International Corporate Governance Network and a member of the Private Sector Advisory Group to on Corporate Governance the World Bank. He is professor extraordinaire in the College of Economic and Management Sciences at the University of South Africa.

37 King G Zwelithini

King Goodwill Zwelithini was born in July 1948 at Nongoma in KwaZulu Natal. He is the eldest son of King Cyprian and his second wife, Queen Thomo. He was educated at the Bekezulu College of Chiefs and then privately tutored. He lived at his father's official residence at Khethomthandayo and received formal instruction in traditional Zulu customs. In 1968 his father died and a regent was appointed to look after the administration of the Royal affairs while Zwelithini completed his education. A heated debate ensued between the South African government and the KwaZulu royal family over the choice of regency.

Zwelithini was installed as the eighth Monarch of the Zulus at a traditional ceremony at Nongoma on 3 December 1971, attended by 20 000 people. The country's constitution made the King's role ceremonial and subject to the authority of the Chief Minister, Mangosuthu Buthelezi. Tensions arose between the two leaders.

38 M G Buthelezi

Chief Mangosuthu Buthelezi was born on 27 August 1928 into the Zulu royal family. His mother was the daughter of King Dinizulu, and granddaughter of King Cetshwayo. His grandfather Myamana Buthelezi was Prime Minister to King Cetshwayo. As the first-born son he was first in line to the Buthelezi chieftainship. From 1934 to 1943 he was a pupil at the Impumalanga Primary School. He went on to study at Adams College in Amanzimtoti where he matriculated.

Buthelezi studied History and Bantu administration at the Fort Hare University in 1948. It was at this University that his short-lived involvement in liberation politics developed. Here he met Professor Z K

Mathews (who was to make an impression on him) and through him, Robert Sobukwe, African National Congress (ANC) Youth League leader, and other African nationalist liberation leaders such as Robert Mugabe. In 1950 he took part in the student protests against the visit of Governor General G Brand Van Zyl, and as a result was expelled from the University. His academic progress was however not seriously hampered because the University of Natal allowed him to attend lectures and sit for the Fort Hare examinations.

In 1951 he found clerical work in the Department of Bantu Administration. The following year he married Irene Mzila, a nurse, and they had three sons and four daughters. In 1953 he returned home to become Chief of the Buthelezi clan. Though his subjects did not refute this status, the government only recognised him as Chief in 1957. Until then he was seen as Acting Chief. In 1970, he became Chief Executive Officer of the Kwazulu Territorial Authority, which the government intended to serve as a transitional authority towards full homeland independence. However, Chief Mangosutho Buthelezi refused to accept this lowered status of Kwazulu. He was also instrumental in the formation of the South African Black Alliance in which he was joined by the Labour Party and the KwaNgwane Homeland leader. Internal strife subsequently led to the collapse of the alliance.

39 Dr G Gono

Gono started his career as a tea boy. After graduating with a diploma with the Institute of Chartered Secretaries and administrators, he joined CBZ until he became the CEO. He graduated with an MBA before being appointed governor.

40 T Mboweni

Tito Mboweni is the eighth Governor of the South African Reserve Bank. He succeeded Dr. Christian Lodewyk Stals on 8 August 1999. The youngest of three children, Tito Mboweni was born on 16 March 1959. He grew up in Tzaneen in Limpopo; he graduated with an Msc in Economics.

11.6 Appendix 6 – Research questions

Building 4, Harrowdene Office Park

128 Western Service Road; Woodmead 2191; **Gauteng**

01 October 2009

Interview Respondent
All Banks, Practitioners and Analysts

Att: Respondent

Subject: Doctorate in Business Administration Research

Introduction
My name is Cleopas Sanangura, working for ABSA as Consultant: Corporate Asset Finance based in Johannesburg (ABSA head office).

I am currently doing a DBA (Doctorate in Business Administration) and the topic I am researching on is as follows: ***Behind the boardroom door. The effectiveness of board of directors in creating shareholder value and the effect of shareholder activism in financial service sector in emerging markets. Corporate Governance in South Africa and Zimbabwe.***

My Research Objectives

d. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial sector and to investigate factors that affect good corporate governance practices. The factors will be used to assess why investors prefer other portfolios and why they perform differently while operating in the same environment. Companies to be covered are Barclays – ABSA, Standard Bank, First Rand Bank, Nedbank, Standard Chartered Bank, Commercial Bank of Zimbabwe (CBZ) and Stanbic.

e. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency
f. To establish if training and accreditation of directors can improve corporate governance practice in the financial sector.

It is a requirement that I have to contact interviews and do some observations on how the board contacts itself in executing its duties. I therefore request your permission to interview the following board members listed below including yourself. As you are the CEO, you have been selected to participate in this research and assist me in developing new knowledge on director effectiveness in emerging markets in the financial sector in South Africa. I am interested in your personal experience, knowledge, observations and opinions in this field.

I want to make it perfectly clear from the onset that complete confidentiality is guaranteed and that anything you might say in the course of the interviews will remain anonymous. Your contribution may be quoted in the study, but will not be attributed to you if need be. I propose that I will be recording all the interviews, for the sole reason of having an accurate account for transcribing which I intend to do in the next few days. I will wipe off all the tapes as soon as I have transcribed them and in the meantime I will be keeping them in a secure place.

I have some open ended questions that I propose to ask, which I am sending together with this introductory letter. There are issues that you may wish to contribute to my research, which you can submit under general comments. If you require any clarification at any stage, please do not hesitate to call me. My contact details are as follows:

Cleopas Sanangura

Chief Executive Officer

Dawn Advisory Services Pty Ltd

Tel: **+27 86 722 7443**

Fax: **+27 86 538 3268**

Mobile: **+27 82 943 8700**

Email: **das@dawnadvisory.co.za**

Research Objectives

a. The primary objective of this study is to examine the effectiveness of board of directors in creating shareholder value in South Africa and Zimbabwe in the financial sector and to investigate factors that affect good corporate governance practices. These factors will be used to assess why investors prefer other counters than others and why they perform differently while operating in the same environment. Companies to be covered are Barclays – ABSA, Standard Bank, First Rand Bank, Nedbank, Standard Chartered Bank, Commercial Bank of Zimbabwe (CBZ) and Stanbic bank.

b. To establish whether the appointment of Auditors and independent directors creates shareholder value and increase transparency

c. To establish if training and accreditation of directors can improve corporate governance practice in the financial sector.

Questionnaires

The Organization and Shareholder Activism

1. Is there a unified articulated organizational purpose shared by owners, board members and managers?
2. What are the major laws and societal customs within which the board must act?
3. Do the policies, procedures and culture make the best use of the board's knowledge, skills and ability as a group?
4. What are the main causes of Corporate Governance failures in Emerging Markets as compared to developed markets?
5. What are the factors/issues that shareholders take into account when considering the existence and effectiveness of Corporate Governance?
6. What is the important corporate governance attributes that influence performance of directors in order to meet shareholder expectations?
7. You mentioned sustainable value creation strategies in the financial report. How do you measure them?
8. Do the values, norms and beliefs of the board support the best use of the board's capabilities? How do the group's values, norms and beliefs affect a director's willingness to use his/her capabilities?
9. What has been the participation of shareholder in creating value to the bank and how involved are they?

Environment

1. What makes the bank different from others?
2. Do policies, procedures and culture make the most of each individual director's knowledge, skills and abilities?
3. Is there sufficient trust on the board for the most to be made of director's capabilities?
4. Do relationships encourage the use of the board's talents by management?
5. Do directors understand how they can put their contacts to work for the bank?

6. If I were to appoint you CEO of another bank what impact will you make?
7. How has the regulatory framework affected performance of banks in the country?
8. Boards have been characterized as largely ceremonial bodies. What is you comment?
9. How do you manage conflict of interest as it relates to Agency theory and stewardship theory?
10. How has integrated reporting affected how you measure the bank's performance?

Directors

Fit	**Key questions**
Human capital/structural capital	Do the policies, procedures and culture make best use of the board's knowledge, skills and ability as a board? Do policies, procedures and culture make the most of each individual director's knowledge, skills and abilities?
Human capital/social capital	Is there sufficient trust on the board for the most to be made of directors' capabilities? Do relationships encourage the use of the board's talents by management? Do directors understand how they can put their contacts to work for the bank?
Human capital/cultural capital	Do the values, norms and beliefs of the board support the best use of the board's capabilities? How do the board's values, norms and beliefs

	affect a director's willingness to use his/her capabilities?
Social capital/structural capital	Do policies, procedures and culture build trust in the boardroom? • Between the board and managers? • Between the board and external organisations?
Social capital/cultural capital	Do the values, norms, beliefs of the board match those of society (Ubuntu)? Do the individuals share values, norms, beliefs? Do these match management's values, norms, beliefs?
Structural capital/cultural capital	Do policies, procedures, culture match societal expectations?

General discussions

1. How do NEDs creating shareholder value and does the bank need them?
2. What type of qualities do you consider when appointing an individual to the board?
3. Will training and accreditation of directors create value and impact on Corporate Governance in the financial service sector and how?
4. How is power distributed among board members?
5. How do you measure individual and collective board performance?

Auditors

1. How do auditors creating shareholder value?
2. Can the bank operate with external auditors? What value do they add to the bank and to shareholders?

Chiefs

1. How are Chiefs selected?
2. How do you select the Izinduna?
3. What are their responsibilities?
4. What is the role of the community in your governance structure?
5. How do you pay Izinduna and how do you determine their remuneration?

General Comments

1. Do the values, norms and beliefs of the board support the best use of the board's capabilities?
2. How do the group's values, norms and beliefs affect a director's willingness to use his/her capabilities?
3. Do policies, procedures and culture build trust in the boardroom between the board, managers and external stakeholders?
4. How does the Ubuntu concept affect board performance?
5. Do the values, norms, beliefs of the board match those of society?
6. Is the Ubuntu concept necessary tool for directors?
7. Do policies, procedures, culture match societal expectations?

11.7 Appendix 7 – CFROTA

Measurement of CFROTA

	CFROTA	CFROTA	Revenue	Revenue	Weighting
Number of Executive Directors (including Chairman)	0.16	0.12	-0.14	-0.15	3
Number of Executive Directors (excluding Chairman)	0.22	0.29	-0.06	-0.06	3
Number of NEDs (including Chairman)	-0.09	0.05	-0.07	-0.04	3
Number of NEDs (excluding Chairman)	0.09	0.04	-0.28	-0.3	3
Number of Directors (including Chairman)	0.03	0.15	-0.13	-0.12	3
Number of Directors (excluding Chairman)	0.05	0.21	-0.2	-0.22	3
Proportion of NEDs (including Chairman)	-0.19	-0.05	0.06	-0.09	2
Proportion of NEDs (excluding Chairman)	-0.08	-0.16	-0.31	-0.32	2
NED: Executive ratio (excluding Chairman)	-0.09	-0.04	0.05	0.09	2
tenure					
Chairman`s tenure	0.09	0.07	-0.15	-0.14	5
Executive`s average tenure (excluding Chairman)	-0.02	0.07	-0.03	-0.06	5
Executive`s average tenure (including Chairman)	-0.03	0.06	-0.08	-0.1	5
NED average tenure (excluding Chairman)	0.11	0.11	-0.16	-0.18	5
NED average tenure (including Chairman)	0.3	0.2	-0.19	-0.19	5
average tenure of all directors	0.06	0.12	-0.14	-0.17	5
Reward					
Average pay of all Directors	-0.07	-0.08	-0.19	-0.18	4
% of equity held by all Directors	0.16	0.04	0.23	0.39	4
N	75-80	67	75-80	67	
Note:					
N	Number of themes				
*	Correlation significant at the 0.05 level				
**	Correlation significant at the 0.01 level				

Table 7A

	Group	N	Group statistics		t-test for equality of means			Weighting
			Mean	Std.Dev	t	df	Sig level	
separate Chairman/CEO								
SALES	YES	69	-0.01	1.04	-0.31	77	0.75	1
	NO	10	0.09	0.64				
CFROTA	YES	69	0.07	1.04	1.67	77	0.1	
	NO	10	-0.49	0.46				
Executive/non-executive chairman								
SALES	Exec Chairman	43	0.04	1.25	0.41	77	0.68	
	NED	36	-0.05	0.6				
CFROTA	ED	43	-0.17	0.54	-1.69	77	0.1	
	ID CHAIRMAN	36	0.2	1.34				
Proportion of NEDs:33%								
SALES	>=33%	62	-0.02	1.03	-0.42	76	0.68	2
	<33%	16	0.1	0.94				
CFROTA	>=33%	62	-0.09	0.58	-1.52	76	0.13	
	<33%	16	0.34	1.94				
Proportion of NEDs:50%								
SALES	>=50%	38	0.06	1.24	0.51	76	0.61	2
	<33%	40	-0.05	0.73				
CFROTA	>=50%	38	-0.11	0.4	-0.91	76	0.37	
	<33%	40	0.1	1.35				
No. of NEDs								
CFROTA	Low	28	2.93	1.78	-0.33	53	0.74	3
	High	27	3.07	1.41				
No. of Exec. Directors								
CFROTA	Low	28	3.32	1.36	-2.03	54	0.05	3
	High	28	4.18	1.76				
Total no. of Directors								
CFROTA	Low	28	7.18	2.44	-1.38	54	0.17	3
	High	28	8.11	2.59				
NEDs: average tenure								
SALES	>=3 Years	51	-0.01	1.16	-0.26	74	0.79	5
	<3 Years	25	0.06	0.64				
CFROTA	>=3 Years	51	-0.03	0.46	1.31	74	0.19	
	<3 Years	25	-0.21	0.72				
SALES	>=4 Years	38	-0.2	0.46	-1.86	74	0.07	5
	<4 Years	38	0.23	1.33				
CFROTA	>=4 Years	38	-0.08	0.38	0.09	74	0.93	
	<4 Years	38	-0.09	0.7				
SALES	>=6 Years	19	-0.28	0.2	-1.46	74	0.15	5
	<6 Years	57	0.11	1.15				
CFROTA	>=6 Years	19	-0.08	0.46	0.1	74	0.92	
	<6 Years	57	-0.09	0.59				
Audit Committee								
SALES	YES	54	-0.09	0.66	-1.15	76	0.25	15
	NO	24	0.2	1.52				
CFROTA	YES	54	-0.06	0.59	-0.94	76	0.35	
	NO	24	0.17	1.59				
Remuneration Committee								
SALES	YES	54	-0.08	0.66	-1.09	76	0.28	15
	NO	24	0.19	1.53				
CFROTA	YES	54	-0.1	0.54	-1.35	76	0.18	
	NO	24	0.24	1.62				
Note:								
N	Number of themes							

Table 7B

Significant correlations (=<.05) between board potential on indicators and bank performance (CFROTA Factor)

Vision, Mission and Values	**CFROTA**
Determine the bank's vision and mission to guide and set the pace for its operations and future development.	
Are the vision and mission:	
• Relevant & practical	0.26*
• Likely to attract the continuing support of shareholders and other stakeholders?	0.28*
• Endorsed by all other board members?	0.26*
• Championed by the entire board throughout the organisation?	0.25*
Determine the values and aspirations to be promoted throughout the bank's operations, now and in the future.	
Are the values and aspirations:	
• Sufficiently robust to withstand conflicts requiring clarification or resolution?	0.29**
• Balanced and sensitive to the various interests of shareholders and other stakeholders?	0.25*
Determine and review bank objectives to match the mission and values, and to form the basis of company strategy.	
Are the company's objectives:	
• Challenging, realistic and attainable?	0.25*
• Clearly stated and measurable?	0.24*
Determine, support and enforce bank policies.	
Are the company policies:	

• Monitored and reviewed regularly?	0.28*
Strategy and Structure	
Ensure that the bank's organisation structure and capability are appropriate for implementing its chosen strategies.	
Does the board:	
• Ensure fair, short and long-term, performance related rewards?	0.24*
Supervision of Management	
Adopt performance measures to monitor implementation of strategy, policies and plans, and legal and fiduciary obligations affecting the business and the board.	
Do the performance measures generate information which is:	
• Able clearly to identify and explain variances between planned and actual performance?	0.25*
• Timely enough to allow corrective decisions and actions to be taken?	0.27*
Ensure that internal control procedures provide valid and reliable information for monitoring operations and performance.	
Are the internal controls:	
• Guided by 'best practice' standards recommended by relevant professional bodies?	0.29**
• Established for all relevant features of the company's activities, including legal and fiduciary duties?	0.31**
• Understood, and recognised as crucial by all board members?	0.29**
• Resourced and reviewed for their integrity and reliability?	0.24*
• Integrated with internal and external audits?	0.27*
Delegate authority to management, and monitor and evaluate its implementation of policies, strategies and business plans.	
Are the powers and responsibilities delegated to management:	
• Unambiguous and, where appropriate, complemented by the 'Reserved	

Powers of the Board'?	0.24*
• Understood clearly by members of the board and senior management?	0.25*
Is the monitoring and review of management:	
• Undertaken in a manner likely to engender managers' commitment and support?	0.24*
• Regular and thorough?	0.24*
• Based on succinct and accurate reporting?	0.25*
• Designed to cover at least profitability, cash flow, investment and risk?	0.24*
• Focused on causes and consequences of important variances from plan?	0.33**
• Geared to the protection of key assets and the promotion of competitive	0.25*
• Guaranteed to ensure that bad news is relayed quickly and honestly?	0.26*
• Compared with best practice and improved if necessary?	0.29**
• Designed to ensure that necessary corrective actions are realistic and achieved?	0.29**
Ensure senior management's successes and failures are communicated to them, and appropriate rewards, sanctions and training are implemented.	
Does the Board:	
Communicate its conclusions to members of the management team quickly and effectively, Whether directly or by delegation?	0.30**
Responsibility to Shareholders and Other Stakeholders	
Monitor relations with shareholders and other stakeholders by the prescription, use and evaluation of appropriate information.	
Are the systems, methods and evaluation:	
Capable of identifying problems and opportunities early enough to stimulate	

prompt action?	0.28*
Ensure that communications with shareholders, other stakeholders and the general public are effective.	
Are these communications:	
Concerning vision, mission, values and policies led by the directors (or clearly delegated)?	0.25*
Likely to meet legitimate expectations, in terms of quality, quantity and timing?	0.23*
In accordance with the needs of commercial security and Stock Exchange compliance requirements, where appropriate?	0.23*

Note:

.* Correlation significant at the 0.05level

.** Correlation significant at the 0.01 level

Table 7C

11.8 Appendix 8 – Board mechanisms

Board structures and performance

Inputs/Mechanisms	Structures	Processes	Outputs
The right mix of skills and experience	• Size of board • Frequency of meetings	**Common vision:** • The board and management share a common vision of what the bank is trying to achieve • The board and management share a common vision of how it	**Strategy and Policy Making:** • Setting the organisation's mission and values • Reviewing and deciding the bank's strategic direction • Setting

		should go about achieving its goals	organisational policies, e.g. health and safety, equal opportunities
Board members have the time to do the job well	• Percentage of board members that usually attend meetings	**Clear roles and responsibilities:** • The board has a clear understanding of its role and responsibilities	**Stewardship or Ubuntu:** • Overseeing the financial management of the bank • Ensuring the organisation has adequate financial systems and procedures • Monitoring organisational performance and taking action when required
	• Presence/ absence of formal subcommittees	**Regular Review:** • The board and management periodically review how they are working together	**Supervising and Supporting Management:** • Selecting and monitoring the bank's chief executive or senior staff • Supporting and advising management
	• Availability of written job descriptions' for board members	**Communication:** • Communication between the board and management is good • Misunderstandings are rare between the board and management	**Board Maintenance:** • Recruiting new board members • Reviewing board performance and ensuring it works well
	• Availability of induction or training for new Board members	**Managing Conflict:** • The board and management are able to solve conflict between themselves constructively • Board members are able to resolve conflict between themselves constructively	**External Relations and Accountability:** • Ensuring that the bank fulfils its legal obligations e.g. submitting annual returns • Ensuring accountability to the bank's stakeholders e.g.

			funders, staff, users and the public • Representing the interests of stakeholders in the organisation • Taking charge when things go wrong • Acting as a link with important organisations the bank deals with • Representing the bank externally • Helping to raise funds or other resources for the organisation
		Meeting Practices: • The board has adequate notice of important issues to be discussed at board meetings • Board meetings have a clearly structured agenda • Important items are prioritised on board agendas • Board meetings run on too long • It is clear who has responsibility for following up actions agreed by the board • The board has trouble reaching conclusions	

Regression model showing the role of individual board processes in explaining the overall effectiveness of the boards using the above findings and themes.

Variables	Simple odds	95% Confidence	Adjusted odds	Significant	95% Confidence

	ratio	interval	ratio	level	interval
Process 1	4.85	3.51 - 6.70	1.83	0.003	1.22 - 2.75
Process 2	5.98	4.39 - 8.15	3.48	-	2.38 - 5.11
Process 3	2.84	2.29 - 3.52	1.69	-	1.28 - 2.23
Process 4	3.04	2.36 - 3.92	1.44	0.033	1.03 - 2.01

Notes

Pseudo	R2=43%
No of respondents	41
Process 1	The board and management share a common vision of how to address bank's goals
Process 2	The board has a clear understanding of its role and responsibilities
Process 3	The board and management periodically review how they are working together
Process 4	Board members are able to resolve conflict between themselves together

* Simple odds ratio estimates are based on all respondents available at the time of interviews

11.9 Appendix 9 – Board intellectual capital

Intellectual property

Component	Human capital	Social capital	Structural capital	Cultural capital
Definition	Innate and learned abilities, expertise and knowledge	Implicit and tangible set of resources available by virtue of relevant social relationships	Explicit and implicit codified knowledge (e.g. routines policies and procedures)	Implicit and tangible resources available by identification with the values, norms and rules

				sanctioned by the dominant group (e.g. honesty)
Resides in	Individual directors	Individual directors board	Board as a group	Individual directors
Key dimensions	• General knowledge • Industry experience • Banking experience • Organizational experience • Board experience • Bank specific knowledge and experience • Functional experience and knowledge • General business knowledge and experience	• Network of extra organisational contacts – scope of resources and nature of contacts • Relationship(s) with CEO, both as a board and as individuals • Relationships between board members	• Documented board policies including manuals, charters and guidelines • Board culture • Implicit board procedures and norms	• Individual work norms • Individual morals • Individual motivations

Results of overall board assessments

		Effect on bank performance		
		Positive	**Neutral**	**Negative**
1	**Strategy roles**			
	• Framing objectives and vision of the business	✓		
	• Formulating (with management) and	✓		

	reviewing company strategy			
	• Setting tone at the top/ethical culture of the organisation			✓
2	**Monitoring and control roles**			✓
	• Ensuring corporate survival (protecting shareholders' interests)			
	• Setting risk appetite of organisation			✓
	• Hiring, evaluating and firing of CEO	✓ **rare**		
	• Specifying lines of authority of management and board (reserved functions)			✓
	• Monitoring and evaluating management	✓ 1		✓ 1
	• Controlling operations	✓ 1		✓ 1
	• Reporting to, and communicating with, shareholders	✓ 2		
	• Recommending dividends		✓ 3	
	• Evaluating board performance, and planning board succession		✓ 3	
	• Ensuring compliance with statutory and other			✓

	regulations			
	• Reviewing social responsibilities			✓
3	**Service roles**			
	• Enhancing company reputation and prestige	✓		
	• Participating in relationships with outside bodies	✓		
	• Assisting organisation in obtaining scarce resources	✓		
	• Acting as ambassador for the firm	✓		
	• Providing support and wise counsel to CEO/senior management	✓		

✓

1 These roles are included twice, as they have both positive and negative effects on bank performance. Monitoring performance and controlling operations will lead to better performance, but may also impose constraints on managers' freedom to generate shareholder value.

✓

2 Boards improve market performance by influencing the perceptions of potential investors (signalling theory perspective).

✓

3 These two roles are assumed to have neither a positive nor negative effect on bank performance.

11.10 Appendix 10 – Respondent quotations

Appendix 10: Respondent quotations

Respondent quotations

a. **Question:** Will training and accreditation of directors create value and impact positively on Corporate Governance in the financial service sector and how?

   Respondent 15: ''Continuous development of directors is a required for any learning and innovative organization as this creates awareness of changes in the market. The Institute of Directors of Southern Africa has made it mandatory that directors should attend refresher courses and complete their continuous development programmes. The Central Banks have also developed different programmes for director developed, which includes inductions programmes, business management skills and regulatory framework.''

b. **Question:** How often do accounting policies change in the bank? *Respondent 3:* ''Accounting policies are changed as and when necessary. It is the responsibility of the board to make sure that policies are reviewed and aligned to the needs of the bank and regulations.''
c. **Question:** Are banks observing the requirements of the King Reports and how many more King Reports are you going to produce? *Respondent 35:* ''All listed banks are required to comply with the listing requirements and the King Reports relevant at the time. The Regulator conducts audits to make sure compliance with these legal frameworks.''
d. **Question:** Is there a unified articulated organizational purpose shared by owners, board members and managers?
   Respondent 36: ''A shared mind-set is possible in most professional boards, where all the stakeholders have common goals one of which is value creation for the benefit of all stakeholders. This is a difficult questions as it is difficult to measure where there people share the same vision.''
e. **Question:** How are Chiefs selected?
   Respondent 37: ''A Chief is appointed after the death of his father. A regent is appointed by the elders who will then take over as the Chief and will appoint Izinduna. The Izinduna assists the Chief to govern and make sure that the community interests are observed''

f. **Question:** What are the main causes of Corporate Governance failures in emerging markets as compared to developed markets?
Respondent 39: ''Insider trading, lack of director independence, trading on non-banking activities, level of skills and experience are the major factors. Dominance by individual directors or shareholders affects judgement and decision making process of banks leading to governance challenges.''

Nottingham Business School

In Association with

Nottingham College of Business, Law and Social Sciences

Doctorate of Business Administration

Document Six

A reflective journal

"Document six submitted in part fulfilment of the requirements of The Nottingham Trent University for the degree of Doctorate of Business Administration"

Key Words: I, Shareholder value, Action research, Critical reflection, Action learning, Reflective journal

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Table of Figures

List of Acronyms and Abbreviations

IIED	International Institute for Environment and Development
DBA	Doctorate in Business Administration
MBA	Master of Business Administration
NBS	Nottingham Business School
SA	South Africa
UK	United Kingdom

1 Introduction

The concern of the DBA is to research on managerial issues through critical review and systematic application of appropriate theories and research to professional practice. This can be contrasted to a PhD that emphasises the development of new knowledge and theoretical perspectives. A similar standard of intellectual rigour is expected out of this project. This research makes a contribution to knowledge in practice, in both cases this being new knowledge.

Document 6 is the final one in a series of six, written as part of DBA research (this project) into the sense-making of the business world and its structures. The learning has been a process, which I am going to report and reflect on for the period 2005 to 2010, which covered the following areas: personal development, professional development, project development and project outcomes. There is a thin line between the first three areas of development as my personal development will impact on my professional development and vice-versa. Organising the progress in this way will provide a good structure for discussion as it flows into each other. (Murdock and Scutt 1999: 11) called this a cycle of learning, which is a concept for people who wish to continue to make progress in their managerial development. The experience over the period of this research forms the basis of reviewing, reflecting, drawing conclusions and planning one's future. Not will only this structure assist the reader but will help me gather my thoughts and make the research experience a fulfilling one.

We have all had experiences in private life surrounding the issues of developing relationships with parents, grandparents, siblings, our own children and so on (Murdock and Scutt 1999: 24). These relationships develop informally and are more or less effective depending upon how the individuals within the role set behave towards each other. Interrelations within a group may vary between being positive, constructive, negative and destructive, depending upon situations, circumstances and the predominant motivation within the group. Cohot 7 has been an awesome group of professionals who worked very hard together although limited by distance, the experience has been phenomenal. Each individual within the role set has made significant contribution to the success of the group through knowledge exchange, which created a unique culture which never existed at the beginning of this programme. The success and effectiveness of the group was dependent on us as individuals within the working group who required mutual trust, support, respect and cooperation between all individuals within the role set, in order to achieve group and personal objectives. The role of informal leadership was held by different students at different times, depending upon the circumstances, or formal leadership where a given student assumes responsibility.

In order to remember all this, an “index of experience” (Redman 1995: 23) (a diary) was kept of critical incidents, experiences, thoughts, emotions, new ideas and fun moments as they occurred over the period of the study. I recall my first experience after being accepted in the programme in September 2005 when the lectures were starting the following weekend and I did not have a visa to the UK. Fear and worry were the order of each day that followed as I had to raise the fees, get student visa and get approval from my employer. I did not know whether I had to do this and why?

I was motivated by Covey *et al* (1994: 17) who argued that, the enemy of the *“best”* is the *“good.”* How many people on their deathbed wish they’d spent more time at the office? We’re constantly making choices about the way we spend our time, from the major seasons to the individual moments in our lives. We are also living with the consequences of those choices. Many of us do not like those consequences – especially when we feel there is a gap between how we are spending our time, resources and what we feel is deeply important in our lives. Our struggle to put first things first can be characterized by contrast between two powerful tools that direct us: "the clock and the compass" (Covey et al 1994: 19). The clock represents our commitments, appointments, schedules, goals, activities – what we do with and how we manage our time. The compass represents our vision, values, principles, mission, conscience, direction – what we feel is important and how we lead our lives. The gap between the clock and the compass had to make me make a choice.

Sitting in the lecture room for the first time, I thought, what do I have to research on? The first handout was an article by Bareham et al (1999: 103) "The DBA: what is it for?" I found the project ahead of me very challenging and requiring a significant part of my time. The person in me realized that he enjoys taking challenges and being able to finish what I have started. As an accountant I had to reflect on different areas that would interest me to research on. I came up with a lot of areas of interest to my career, life and I settled on the issues affecting performance of banks in emerging markets.

The collapsing of many financial institutions in SA and Zimbabwe became an area of concern for me as it affected the whole economy and its performance. I found it an interesting area which became a very important research following the current trends in the world economy. My focus was to look at the drivers of business, who happen to be the board of directors and how they apply themselves to the success or failure of an organization. My interests were stimulated in this area rather than any other debate for the following reasons:

- What happens behind the boardroom door?
- What drives the business?
- What do shareholders want in a business?
- How effective are board of directors?
- How is this effectiveness measured?
- Why do some companies fail while others succeed while operating in the same environment?

We face grave impediments to learning in complex systems like a nation, firm or family (Sterman 2000: 33). Every link in the feedback loops by which we might learn can be weakened or cut by a variety of structures. Some of these are physical or institutional features of the environment – the elements of dynamic complexity that reduce opportunities for controlled experimentation, prevent us from learning the consequences of our actions and distort the outcome we receive. Some are consequences of our culture, group process and inquiry skills. Still some are fundamental bounds on human cognition, particularly the poor quality of our mental maps and our ability to make correct inferences about the dynamics of complex organizations.

This became my focal point as I realized the challenges ahead and the requirements of different stakeholders in the corporate governance mapping. The interaction with senior officials and practitioners in this field of study became the motivating factor. Effectiveness of people is influenced by different factors like skills, experience, position, rewards, culture, ethics and transparency. How these apply to the financial services sector became the starting point.

2 Learning process

A learning style is a student's consistent way of responding to and using stimuli in the context of learning. Learning styles are the "composite of characteristic cognitive, affective, and physiological factors that serve as relatively stable indicators of how a learner perceives, interacts with, and responds to the learning environment argued (Keefe 1979: 1)." Stewart and Felicetti (1992: 15) defined learning styles as those "educational conditions under which a student is most likely to learn." Thus, learning styles are not really concerned with "what" learners learn, but rather "how" they prefer to learn. Learning styles are points along a scale that help us to discover the different forms of mental representations; however, they are not good characterizations of what people are or are not like. We should not divide the population into a set of categories (i.e., visual and auditory learners). What these various instruments attempt to do is to allocate a person on some point on a continuum (similar to measuring height or weight). In other words, do not pigeonhole people as we are all capable of learning under almost any style, no matter what our preference are.

The literature basically indicates that there is wide acceptance of the concept of learning styles; however, “there is disagreement on how to best measure learning styles” argued (Coffield, et. al., 2004). While the learning profession has long recognized the need for innovative instructional activities that relate to the diverse learning styles of learners, there is some question as to just how meaningful they are to the learning environment. That is, most researchers agree that we do have various learning styles and preferences, however, the research tends to agree that it is relative unimportant as it is far more important to match the presentation with the nature of the subject, such as providing correct learning methods, strategies, and context; than matching individual preferences (Coffield, 2004). For example, in a large meta-study, (Marzano 1998) found that graphic and tactile representations of the subject matter had noticeable effects on learning outcomes, regardless of any attempt to match them with learners' modalities.

Perhaps (Merrill 2000) has the best philosophy for using learning styles -- instructional strategies should first be determined on the basis of the type of content to be taught or the goals of the instruction (the content-by-strategy interactions) and secondarily, learner styles and preferences are then used to adjust or fine-tune these fundamental learning strategies. Finally, content-by-strategy interactions take precedence over learning-style-by-strategy interactions regardless of the instructional style or philosophy of the instructional situation. Merrill continued with the argument that most students are unaware of their learning styles and if left to their own means, they are *"unlikely"* to start learning in new ways. Thus, knowledge of one's learning styles can be used to increase self-awareness about their strengths and weaknesses as learners. I found myself in a similar situation. In other words, all the advantages claimed for metacognition (being aware of one's own thought and learning processes) can be gained by encouraging learners to become knowledgeable about their own learning and that of others (Coffield, 2004). This became an action plan for our learning set.

DBA approach to learning is to encourage action learning. Action learning is a means of development, intellectual, emotional and physical, that requires a group of subjects, through responsible involvement in some real, complex and stressful problem, to achieve intended change sufficient to improve observable behaviour argued (Revans, 1979: 3; Koo, 1999: 89). Action learning as defined (Revans 1983) is a continuous process of learning supported by colleges, with an intention of getting things done. Through action learning individuals learn with and from each other by working on real problems and reflecting on their own experiences. It is similar to learning-by-doing (IFAL 2007) but distinguished by the degree to which a process of learning is designed and organised (for example, excluding the everyday actions and learning of an animal or child). It also differs from experiential learning, which can apply to an individual alone, by the degree to which reflection is supported by a group of colleagues (McGill and Beaty, 2001) often referred to as action learning set. Action learning requires both existing knowledge (i.e. from book learning or course work) and appropriate group questioning or reflection while trying to apply that knowledge to solve a real problem (Raelin, 1997). It is a broad developmental approach that can involve a wide array of participatory processes and tools to which entire publications series have been devoted (for example, Participatory Learning and Action published by the IIED).

The researcher passed through a cycle of stages during the learning process which included: undertaking an action, questioning what happened, developing critical analysis, setting scenarios and testing the new knowledge. Action learning activities were conducted in an informal and formal setting, designed to facilitate experiential learning and stimulate participation from all members of the learning set. This facilitated open dialogue between members, whose opportunities to interact with others from different backgrounds and countries, either within their own countries or the wider continents were realised. The support that students provided for each other related to the processes rather than the specifics of each other's research – that was discussed with respective supervisors. My experience on the first day of our learning set meeting was full of enthusiasm, defensive about what I already believe in, little confidence and not sure of whether I will make it.

Action learning (Marsick and O'Neil 1999) (The experiential school) as defined, is an approach taken by those who believe that (Kolb's1984) experiential learning cycle is its theoretical base. Kolb's cycle differs from Revans' original approach in that it has equal emphasis upon all points in the learning cycle, with no definitive starting point rather than always starting with the "action stage." The learning styles inventory he designed (Kolb 1984) provides an insight to the researcher if he/she perceives and processes information by categorizing him/her as a diverger, assimilator, converger and accommodator. Honey and Mumford (1986) stated that learning is a cyclical process but, unlike Revans and Kolb, they do not see cognitive processing or biology as the influencing factor on learning cycle preference rather they see more socially based factors such as previous experience and environment as key. They devised a self-diagnosis questionnaire that provides an overview of an individual's preference for four styles of learning" activists (learners who involve themselves in new experiences), reflectors (learners who are cautious and thoughtful, preferring to consider decisions), theorists (learners who can interpret their observations into their own cognitive models) and pragmatists (learners who are keen to apply new ideas and see how something works in practice). They argued that learning style preference can change at will or via circumstance, thereby inferring that preference is not as rigid as Kolb's styles and individuals can set out to actively become "more rounded learners."

Harrison (1996) criticised action learning as based on questions of cost effectiveness, its grounding within the scientific management paradigm, over-emphasis upon action and not theory, impact on participants and value to sponsoring organizations, the notion of a cycle learning does provide a framework for discussion and will be referred to in later. It seemed at this point in time that learning styles are not really "styles," but rather "preferences" in that i did not learn the best by using my style of learning. That is, i prefer one or more styles over others. Panel discussions, incorporating rich exchanges between learning set members, lecturers, supervisors, management and directors from organizations that assisted during the research also became a strong feature of the action learning process. My own experience leads me to believe that the above learning cycles lack explicit acknowledgement of context and emotions in learning experience.

(Schon 1983: 49) referred this as "knowing-inaction." Rather than referring to "action" he refers to "catching oneself – experiencing a dilemma and identifying one's emotional response to it. He claims that situations are not given but constructed from events that are puzzling and uncertain and consequent reflectivity is “surfacing” one’s intuitive understanding of these situations understanding which has been implicit in action and which is criticised, restructured and becomes embodied in further action. In his view reflection and action are not separate and discrete.

Looking back to the past four years I can identify many learning experiences. Some more or less significant than others but for the purpose of this document I will focus on critical incidents mostly represented by the activity and writing associated with previous five documents as well as the overall experience.

3 Personal development

As an accountant my approach has been realist, as my background requires evidence, structure, balance and systems. Researching on a different field which is not mathematical or accounting created challenges for me but I had to view things in a different way as I required fundamental mindset shift. Although at the beginning I did not have the philosophical ideas to help me articulate the nature of the challenges ahead. I had to learn first communication and presentation skills, which involved listening actively and using a variety of media and communication aids. It was important to recognize the importance of purpose, self – management and challenge for other people.

Motivation might not readily spring to mind as involving communication skills. However, if viewed as a means of communicating shared interests and, needs, it can be seen that in order to do this I had to communicate individually to the group, organizations, lecturers, supervisors and examiners. Various researches carried out for example, [Maslow 1943 – (A review of research on hierarchy of needs theory), Hertzberg 1959 – (Hygiene and motivational needs – two factor theory), Vroom 1964 – (Expectancy theory predictions of employee performance), Porter and Lawler and Alderfer 1972 – (ERG theory – existence, relatedness and growth)], it is clear that people are motivated in various ways and by various means. Among them I was motivated by a sense of recognition, achievement, responsibility, freedom and interest to achieve a doctorate which could give me authority to write and research on any area of management. These were categorized into three: purpose, self-management and challenge (Murdock and Scutt 1999: 36).

If there is any one "secret" of effectiveness, it is concentration, which is grounded both in the nature of the student and in the nature of man (Drucker 1966: 102). Effective students do first things first and they do one thing at a time. I was challenged by this quotation and I had to reflect back to my experience, I became aware that events do not always turn out as expected; instead there is an element of uncertainty. The programme had tight deadlines, standard of writing and level of detail required as per the marking scheme. My prior learning had never exposed me to this experience as we concentrated on theory without matching it to practical experience. Each of us has our own learning profile – our own preferred strategies for learning (Senge *et al* 1994: 421). My learning style governs how I approach new projects, how I increase my own capabilities, how I contribute to the learning set's results and whether I find it easy or difficult to get in synch with a particular team. Developing a good mix of learning styles was critical to the learning set's success in this programme especially at the beginning.

As we moved on with the learning process I found myself being introduced to new terminology and concepts *('ology, semiotics, ontology, morphogenetic, actor-network theory")* difficult, which tested my understanding through discussions with Colin Fisher, Jim Stewart and Alister Mutch (which reminds me of the Victoria Pie company case), which was an interesting case study for an accountant. My confidence level deteriorated compounded by English being my third language I could not trust myself even my contribution level in my learning set took a dive. The class was full of well learned people some being CEOs, FDs and doctors, I realised that the going was increasingly getting difficulty and I could not imagine me completing this programme more so being the only African in class my support structure was week. I had no one to lean on when I needed support when I am back to my base.

When it was time to prepare document 3, I realised that I was in hot soup and the effect of myself being an accountant came to realise (qualitative research). This was my weakest link. I had to do document 4 first before I could start with document 3 as it required a lot of this terminology and no number crunching. I became more confident doing document 4 (quantitative research) which explained why I am a realist, who required proof of actual performance of each bank as reflected by the financial statements. Colin Fisher one of my supervisors deserves credit on the role he played on my document 3 to put it into shape. I felt like I was not going to make it.

If you ever have the chance to observe predators in the wild, you may notice that they operate in cycles. Most of the time, they display barely any movement. They project a sense of calm focus, as if they are waiting for a particular moment. Then it comes: Their muscles are charged with intensity as they sneak up on their prey and strike. When it's over, they return to their original calm. The cycle is back to its beginning (Senge *et al* 1994: 59). I learnt in a similar cyclical fashion. I passed between action and reflection (observer of own thinking and acting), between activity and repose. I then realised that in any project or initiative, either individually or on a team, each stage demands deliberate attention before you move to the next.

I had to draw more value from my learning set, class and lecturers when we meet. These general discussions on research methods, methodologies and several researchers shared their research materials and experience with me, which assisted in my development. This was both stimulating and a source of anxiety as I would spend the next few days reflecting on what had been said and I could worry about how I was going to put it on paper. I had to take these discussions to my specific area of research by discussing with my supervisors (Paul Barnes, Colin Fisher and Francis Neshamba). The fear would subside as I understood their explanations, which showed a lot of maturity and experience. I could move forward to the next stage with confidence and with a positive frame of mind.

After many years of being an executive in different blue chip organizations, it had become a tendency that I was always seen as the leader who could give instructions and direction. Being a student again shifted my status, I had to do assignment, attend lectures and submit assignments on time. The concept of sensemaking proved helpful during my research and also in the real world, where I realised I do not have to wear the same hat all the time. During lecturers, learning set meetings, interviews and meetings with my supervisors, I realised that status had to change all the time.

The most interesting experience was when I submitted document 3, which one of my supervisors marked a pass while the other marked it a fail. How could this be? My world collapsed as I had never had a fail in my whole career and I thought that was the end. I reworked on the document and met with the same supervisor many times. After his approval that it was now ok for submission, he marked it pass with substantive amendments. I was in a shock, upset and I thought this was becoming personal. I had two meetings with him after that and he insisted that he wanted my English to improve as I was not expressing myself clearly. The supervisor I believe had shifted identity at that point from a supervisor to someone who did not want me to proceed with my research. At one point he wrote a comment that I was not going to make it, rather I work for am “Mphil.”

We then agreed that we were going to work on this weakness as he was harder on me so that my document 5 will meet the required standard. I felt more tension about my identity, even my contribution in the learning set deteriorated. I felt rejected, but as I started talking to members in my learning set I realised I was not alone in this environment. Some had even decided to leave the programme as they felt that they were not going to make it. At that point the number of students in the class had decreased from 28 to 15. I took this positively and worked with him until I eventually resubmitted my document 3. Document 4 was not much of an issue after document 3 ordeals, as I had to deal with quantitative information which was easy for me to interpret and my writing skills had improved.

After submitting document 3, as I engage with colleagues, researchers, practitioners in strategy, corporate governance, risk and leadership, I became more assertive and confident. I also noted after document 3 that I was more assertive and confident engaging with colleagues in those – “ology” discussions and beginning to believe that I was developing a skill that I never had. I then appreciated the role the supervisor played to unpack the person in me so that I could look at the bigger picture of research.

Senge (1999) and Weick (1995) encouraged me to develop the spirit of personal mastery – (I had to go beyond competence and skills). I realised that I had previously considered analysis as simply reporting patterns which had emerged without giving a critical analysis of the events. The Weickian view suggests that authoring is activily creative in that I view the data through the lens of my own reality. I had to sensitise the language that I had to use in authoring and writing my documents.

3.1 Learning set knowledge development

The acknowledgement of horizontal social networks along the value chain, mainly perceived as vertically structured, opens the perspective for a new human dimension within economic and developmental relationships. Horizontal and vertical communication is essential in order to include all stakeholders of the value chain.

Cohort 7 started with 28 students who were divided into 5 learning sets. It did not take long for the number to reduce to below 20 as a result of some students surrendering at an earlier stage. From the beginning the programme had some indications that it will not be any easy road. During the second year the learning sets had to be reduced to 2 as the number of students left was 12.

Appropriate mechanisms, which enhance learning and the development of innovations, are (non-virtual) face-to-face events, like workshops, excursions and field-trips was the structure of the programme. Many students could not manage and had to drop as some failed. The programme required hard workers and dedication. The reduction in number was a blessing as I ended up in a learning set of students with dedication and conviction to finish this programme. Major problem though was distance from each other as all members were from different countries, Ireland, France, England, Qatar, South Africa and Greece. It was difficult to meet as we had to schedule our group discussions during the week of lectures and fortunately the use and availability of technology assisted (Skype, video and telephone conferences) bridged the gap. There were no major negatives to report on as the group worked and jailed well as if we had known each other for years.

3.2 Supervisor student support

One thing that is particularly interesting about studies that have been done on the 'ideal' supervisor is that the findings all suggest that it is the *affective* dimensions that candidates value the most highly in their supervisors (support, availability, interest and enthusiasm). Issues of technical 'know-how' are usually rated somewhat lower down the list of desirable characteristics. Yet, possibly the most commonly reported difficulty for students relate to communication difficulties with supervisors. Establishing sound and productive communication early, and regularly reviewing communication strategies, can help avoid some of the more distressing situations in which students and supervisors can find themselves (Wisker 2005).

The role of leaders is crucial to bridge different pools of knowledge and link different types of networks (like primary / family and neighbourhood networks with secondary / value chain networks). Leaders are critical in the process of appropriation of information and knowledge as well as innovations, as they support others in developing innovations. This means establishing cooperating and trust-based relationships, the redefinition of common objectives and strengthening the negotiation and conflict resolution abilities.

Research (Mainhard *et al* 2009: 359) suggests that a productive relationship arises from a process of implicit and explicit negotiation based on agreed goals and values such as:

- mutual respect
- open communication
- an understanding of the expectations of the other
- shared commitment to the goal of the completion of a successful research candidature

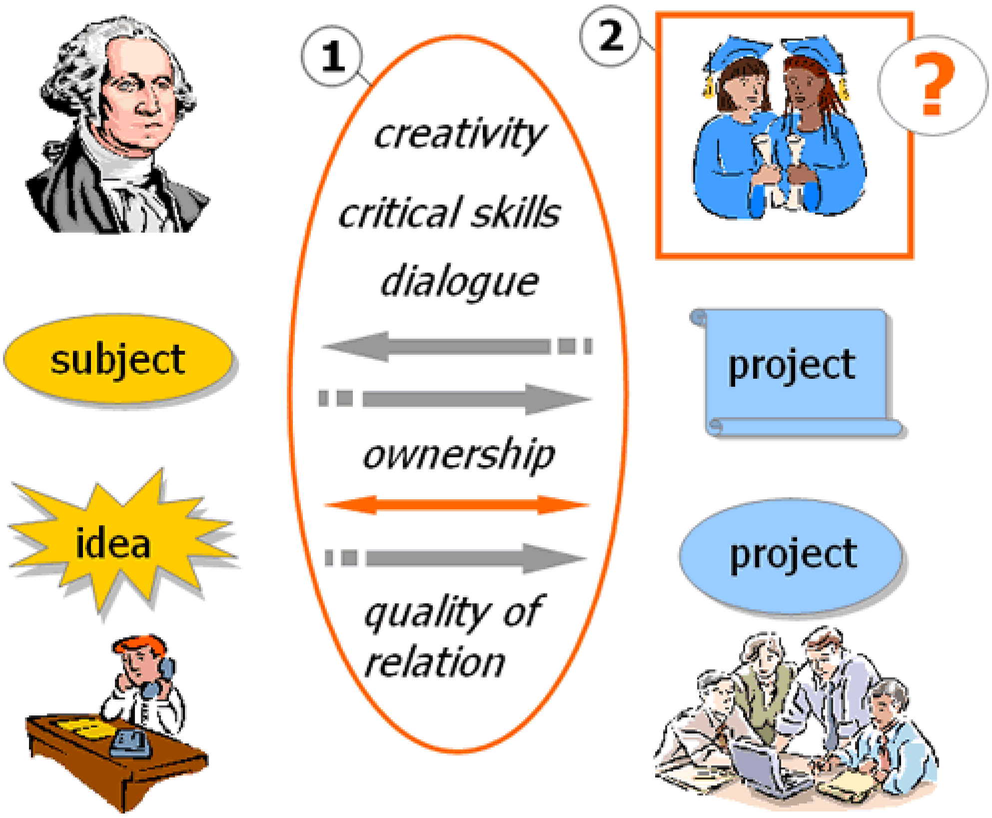

Figure 3-1: Students, Supervisor ownership of the research project

During the research project my supervisors provided the critical thinking and skill which assisted the student to develop a researchable topic. I do think it's quite a difficult process for parties, (supervisor and student) at this stage. And it changes over time. To begin with the supervisor is in quite a strong position in defining and directing the student and the student is relatively subordinate at the beginning (Figure 3-1), willing to accept advice and direction *Delamont et al (2000: 141)*.

As the student gets more and more into the subject (Figure 3-1), the relationship begins to change, because they develop an expertise which the supervisor is no longer sharing (Taylor and Beasley (2005). Also, they develop a view about their intellectual property which is separate from the supervisor. And it's a bit like a growing-up process, an intellectual growing-up, and it leads to conflicts at certain points in time, as the student develops that independence.... (Kiley 2003: 345). There are some areas where I differed with the supervisors as the project progresses due to knowledge being developed and at the same time I was becoming the subject matter expert. I had to explain my argument to the supervisors and eventually we end up taking a position together.

I have always found there's this period in the middle where there is that conflict, like my relationship with my daughter, where there is a change occurring, and it's quite difficult as the supervisor to begin to 'let go' almost. You feel they're not ready for it, they're not in control, and that leads to a degree of conflict which can be overt, or could be no overt.

Recognising these conflicts, I had to develop key to the process and formulation of the problem/question, because it is that which ensures focus and engagement. The tension comes from providing enough direction to stop students going down paths which are non-productive (which is a problematic judgment in itself), without taking over. In other words the student has to 'own' the thesis. Figure 3-1 is a process I had to follow up to the completion of this project from point 1 to point 2.

3.3 Summary

Not all writers agree with Kolb's theory. (Rogers 1996: 108), points out that "learning includes goals, purposes, intentions, choice and decision-making, and it is not at all clear where these elements fit into the learning cycle." There are different types of learning (Habermas 1987: 1). There is no good understanding of learning styles as it stands. But it certainly does not follow that we all learn the same way - the senses may well work in concert, but (as someone with thick glasses, I can attest) some senses work more or less well, meaning that each individual may combine the senses differently (Coffield 2004). As for the Inventory, Kolb, himself, points out its greatest limitation. The results are based solely on the way learners rate themselves. It does not rate learning style preferences through standards or behaviour, as some other personal style inventories do, and it only gives relative strengths within the individual learner, not in relation to others. In my own case, I found the results dubious. The wording in the questions seemed vague and the results did not jive with my own view of my preferred learning style.

Nonetheless, Kolb's contributions cannot be underestimated. Whatever their limitations, by presenting a model of experience in a scientific form, he has helped move educational thought from the locus of the instructor back to the learner. As many of the major contributors to the field, (Brookfield 1990; Cross 1981; Jarvis 1995; Kemp 1996; Knowles 1990, McKeachie 1994) have pointed out, experience has once again become a viable topic of discussion. The application of Kolb's theory which, models an innate process, to the pedagogy of a deliberate educational event has never been shown convincingly. Neither has the transfer of learning from one context to another been demonstrated. "It remains a powerful planning and thinking tool for facilitators. I wonder if there is evidence of the application of the model stimulating better designed and led classes/sessions resulting in better outcomes.

I note that my preferred learning style, as categorised by (Honey and Mumford 1986), was activist from the start of the DBA. I like to involve myself in new practical experiences. When I refer back to my dairy entries at the beginning, this is reinforced by comments from my learning set members. I then realised that I can also start writing and doing some research which will assist students, practitioners and organizations. My focus was now on document 5 and future research as I felt doing something active like writing would demonstrate some kind of progress rather than what I viewed as the more passive reading and thinking. The fear of unknown was disappearing as I was now positive and looking forward to future documents and research, which will make me a good writer and researcher.

4 Professional development

Viktor Frankl, an Australian psychologist who survived the death camps of Nazi Germany, made a significant discovery. As he found within himself the capacity to rise above his humiliating circumstances, he became an observer as well as a participant in the experience. He watched others who shared in the ordeal. He was intrigued with the question of what made it possible for some people to survive when most died. The single most significant factor, he realized, was a sense of future vision – the impelling conviction of those who were to survive that they had a mission to perform, some important work. Gradually, new awarenesses were assimilated into basic shifts in attitudes and beliefs. This does not happen quickly. When it does, it represents change at the deepest level in individual growth. The executive makes strength productive stated (Drucker 1966: 73). He knows that one cannot build on weakness. To achieve results, one has to use all the available strengths – the strengths of associates, the strengths of the superior and one's own strengths.

Doing a research in the sector I am part of created a sense of anxiety, wondering whether my judgements were going to be impartial. I had read almost all the stories, why the banks were failing and I had a fair amount of understanding of the sector. As I became a practitioner in the risk and corporate governance field, I realised that there was something that I was doing wrong – (the type of writing, the aggression and too quick to conclude). As I moved to document 4, my focus and type of writing changed, I began to take an open mind and reflexive approach, thereby making my personal values and beliefs and their potential influence overt. This not only helped my personal development in that I became more aware of my view of reality and its potential impact, but helped me develop as a researcher. I discovered the capacity in myself and the vision – (the impelling conviction) that I was going to do this well.

When we talk about "the passion of vision," we are talking about a deep, sustained energy that comes from a comprehensive, principle-based, need – based, endowment – based seeing that goes beyond chronos and even kairos. It taps into the deep core of who we are and what we are about. It's fuelled by the realization of the unique contribution we have the capacity to make – the legacy we can leave. It clarifies purpose, gives direction and empowered me to perform beyond my resources (Covey *et al* 1999: 105).

Before I even finished my thesis I was invited by two business schools in SA to supervise MBA dissertations. I then realized that the DBA was helping me realize the potential and capacity in me to research and write. Not only had my ability to discuss research methodologies and methods improved, but I had increased awareness of the student/supervisor relationship and the potential discomfort that perceived power differences can bring. Communication is an important component of the learning process, where I had to learn to listen more and talk less, which helped in my learning process.

According to Wenger (undated), communities of practice are basically defined as groups of persons who share a passion for something that they know how to do and who interact regularly to learn how to do it better. In many cases, those forming the community of practice can be scattered over a broad geographical area and use virtual media and/or communication channels to share knowledge and experiences, as well as operate as a social network that does not depend on the variables of time and space to inter-communicate (Allen et al. 2003). The role that my learning set played in my journey of learning cannot be measured as we shared all the resources we had and technology was a useful tool to communicate among ourselves (Skype, video and telephone conferencing). The ability to use video conferencing when others are conducting their interviews were useful in my research process as I managed to develop questioning skills that assisted me to collect relevant information for my documents 4 and 5.

Probably the deepest and most often expressed pain we hear in the area of “time management” comes from imbalance. Obviously, balance is a “true north” principle. We see manifestations of it all around us – the balance of nature, balance of trade, balance of power. As with any principle, one of the most powerful witnesses of its reality is the consequence of living with its opposite – imbalance. Collection of data, contacting interviews, transcribing, analysing and writing documents 3, 4 and 5. I had to look for someone to transcribe for me, while I am concentrating on other issues. This allowed me time to generate enough material to meet the requirements of this programme and becoming a good researcher.

4.1 Learning outcomes

The researcher has met the requirements of the DBA programme by developing competences in the following areas:

- Developed capacity to demonstrate methodological and epistemological understanding of the issues surrounding research topics in management, strategy, finance, risk and corporate governance
- Developed competences in academic writing, technique and critical review of different markets as a reflective practitioner
- Capacity to display originality and creativity in applying the results of the research to professional, managerial and organisational activities
- Formulate professional and managerial issues and problems in ways that have both practical and academic validity
- Developed competence in conducting research that is credible within an academic and professional audience
- Developed rhetorical skills in analysing and constructing arguments that weave together academic knowledge,

research based findings, reflections from professional practice and managerial experience and

- identify, evaluate and criticise the academic and professional literature relevant to the identified issues of business and management and use it in developing my understanding and other practitioners

4.2 Post DBA programme

The aim of this programme was to validate at the highest academic level, the professional practice competence of the researcher working in business and management related areas. To develop knowledge of the information sources, analytical tools pertinent to effective research and analysis in business and management studies.

The DBA programme has equipped me with the ability to learn from and reflects upon past experience; enhance consultancy, project management, teamwork, research, leadership and organisational skills. At the end of this programme I had the confidence of setting my own consulting firm, which current employs 68 highly professional consultants in different fields. Together we are able to develop excellence in analytical and quantitative skills in business and management research and problem-identification and problem solving in different markets, fields and organizations. With such a team I have demonstrated an original contribution to professional practice.

Skills and experienced acquired as a result of this project has created a fully flagged consultant who is able to assist organizations on turnaround, strategy, business re-engineering, risk and governance processes. Ability to assess the relevance of current and emerging business theory and practice, from an interdisciplinary perspective, formulates and executes effective solutions to complex real-world problems common to the practice of business and management.

These competencies have assisted the firm (Dawn Advisory Services Pty Ltd) to be appointed on the panel of South African Government advisors and consultancy. I have been selected to be an advisor to the Gauteng Provincial Legislature that includes the Premier of the province. I have also been appointed a board member of the Gauteng Provincial Government, City of Johannesburg Group Audit Committee member and Johannesburg Tourism Company. I also chair the board of PFM Group.

The University of Stellenbosch has invited me to be a member of their Unity for Corporate Governance for Africa which is responsible for conducting research on Risk and Corporate Governance in Africa. This unity is being used as a think tank for corporate governance in Africa. Our mandate is to develop Corporate Governance as a field of study. We have a target to develop 50 post graduates in Africa each year. My roll will be to lecture and supervise researchers in this subject in Africa, which will include risk, strategy, finance and management. I now have the capacity to influence my industry as a business consultant and will be publishing research as an expert author, which will assist organizations, practitioners and researchers. With this knowledge I have started to supervise students at four Universities [School of Leadership (SBL), Milpark Business School, Management College of Southern Africa (MACOSA), and GIBS (University of Pretoria Business School)]. Currently I have 11 students whom I have supervised during their dissertations and graduated with a Masters in Business Administration and Masters in Financial Management.

5 Project development

Project development is a reflection on aspects of my experience associated with how the DBA project developed over the three years and how I managed the project. My interest in undertaking this research was triggered by the continuous failure of corporates and banks in Southern Africa. Being a company secretary at one point in my life triggered the need to understand the reasons for these failures especially after 2002 (WorldCom and Enron era) and why other organizations are successful. This became an emotional journey as at the time of this research I was an employee of one of the banks that survived collapse in 1990, which resulted in the amalgamation of Allied bank, United Bank, Volkskas, Bankorp (including Trust Bank and Bankfin) in 1991 to form ABSA.

From the beginning I divided my project into sections after getting advice from those who have travelled the same journey. This advice made my project formalized from start. I then put a structure in my diary which I called a development process for my DBA learning and the stages were:

- **Idea generation** - to capture new ideas
- **Idea distillation** - to screen out those ideas not worth taking forward
- **Concept definition** - to consider specifications such as technical feasibility, analysis of the industry, available information and potential to produce a good research product.
- **Strategic analysis** - to ensure my ideas fit into my project plans
- **Concept development** - to create a prototype proposal or pilot service (document 1) and a conceptual framework.
- **Test the subject (literature review) and finalising the conceptual framework** - to ensure my project can be modified according to DBA requirements
- **Project launch** – this was the trickiest stage of my project as I had to start with a qualitative research, which was the most difficult part

of my project. Getting it right first time was essential but this was not to be.

At this stage I realised that action research was a process by which change and understanding can be pursued at the same time. It is usually described as cyclic, with action and critical reflection taking place in turn. The reflection was to review the previous action and plan the next one. I used to think that action research was the umbrella term, and action learning was an application of it. Some of my colleagues, I found, argue that action learning is the umbrella term. On reflection, I don't think it's worth debating. As they were previously practised, I think a useful distinction could be made. In action learning, each participant drew different learning from different experience. In action research a team of people drew collective learning from a collective experience.

The collective learning and experience were useful for the success of this project. Each member of my learning set and the class at large played a crucial role in me being modelled to become a researcher I am today. The pain I went through during document 3 was useful in two ways: the way of writing and the decision making process. When I finally got the results for document 3 and it was a pass I wrote in my diary *"yes!!!"*

Since I had never had a fail in my studying life, document 3 made me loose confidence and hope. The learning here was that perseverance, listening and taking advice is very important in one's success. I looked back and said to myself, what was the reason for failure. Some of the reasons that came to mind were too much work, travel and family pressure. I realized that I would loose touch once I travel and forget the progress I had made. I remembered during my study for an MBA that we had the first lecture was about time management and managing interruptions (stress). I then realized the importance of each module we pass through in our learning curve and how it impacts on our life. The use of technology came to my rescue as the NBS electronic library was a resource and tool to use. I then asked my employer to give me a laptop with access to a 3G network, which worked very well for me as I could access the library any time when I needed any information especially literature review material.

The major challenge from document 3 was to keep track of high volumes of literature that I had gone through. I then asked a few researchers how they coup with such high volume of data. Most of them gave me the same answer, *"indexing is the treatment for confusion."* I then tried it and it worked. The other learning point was the convergence of different subjects into my research project. The impact of finance, risk management, economics, engineering, biology, environmental studies, law, history, culture, art to mention a few was felt as I could not ignore one of them. I then learnt the dynamics of business and how complex the world is. The outcome of this experience and subsequent reflections was that I reviewed and revised my conceptual framework many times such that the investigation of an individual's ethical stance and cultural discourse would be considered beyond the scope of this particular study.

The disappointment came from the fact that not all board members respect ethics, which shows that there is a cultural discourse (Ubuntu) within the same communities. I learnt that cultural discourse is one of the reasons why corporates and banks fail. There is no alignment of interests between shareholders and directors. One of my questions to board members and auditors was, "How do you manage conflict of interest?" The answers I got were surprising as reflected in (document 3: 3: diagram 1.1), self interest is the major threat to corporate governance, which has resulted in directors and auditors not carrying their fiduciary responsibilities resulting in bank failures.

The learning was that, shareholders need to participate in the administration of the bank from strategy formulation, decision making and strategy execution. Board members need not shift their responsibilities and accountability to auditors as they have a stewardship role to play in the administration of the bank. Theories and regulations have failed to solve the corporate governance paradox; hence shareholder activism is critical in the shareholder value creation model. Directors must start to manage for value in order to solve the corporate governance problem.

“Corporate strategies with no execution strategies are bound to fail,” was one of the statements I wrote in my diary after meeting with Bob Garratt who is one of the most popular corporate governance gurus. Strategy execution is very important as strategy needs to be linked to operations argued (Kaplan and Norton 2008: 10). If this is not done, this will be another worm that will eat and cause the banks to fail. Execution of strategy and linking it to operations will improve operational efficiencies argued interviewees 34 and 35.

6 Linking the DBA programme to Knowledge Exchange

Knowledge exchange can be defined as the process by which evidence and new knowledge, created through research inquiry, is shared with supervisors, peers, practitioners and other stakeholders to inform and support new knowledge. Knowledge exchange occurs generally as the result of 5 key activities or publications:

- The development of research frameworks,
- Enhanced researcher, peer, supervisor and practitioner linkages (research partnerships with Partners, class workshops),
- Information dissemination (synthesis and implementation documents, research notes),
- Extension activities (workshops, discussion groups), and
- Knowledge-based networks and communities (website, Library and peer network forum).

An effective research (knowledge) exchange process involves developing new relevant knowledge, exchanging the knowledge to user groups and using that knowledge in changed practices, policy or models. Problem solving and decision making – the ability to create effective policies, research programs and to engage them in practice – is strengthened when practitioners have access to the latest, relevant knowledge and evidence. As such there is an increasing emphasis on incorporating knowledge exchange and utilization into the research design and funding process. This toolkit explores how researchers can support knowledge exchange practices among themselves and students.

Ideally knowledge exchange is a two-way process, engaging both the researcher and the practitioner (supervisor) in developing the research questions. The researcher systematically solicits and shares information and the supervisor provides constructive feedback. New knowledge may challenge practitioners' existing models, leading them to question or confirm their present assumptions. Questioning their assumptions can encourage practitioners to be receptive to learning new information. The new knowledge must be exchanged in a form that is immediately applicable or it will likely be ignored. Finally, it is critical that knowledge exchange takes place through a variety of techniques to accommodate the varied learning styles of practitioners.

The DBA programme allows for knowledge exchange at individual, learning set, cohort and supervisor level. Students are allowed to interact with each other, lecturers, supervisors, academic professionals and other practitioners in the industry. This benefits students in widening their understanding of industrial knowledge, local market and international markets. New information is easily made available to other students which then benefit them in their research process.

6.1 Challenges to the DBA and Knowledge Exchange Process

The challenge of disseminating information within a cohort is to package that information so that students can get the information in an effective format. Students always find it difficult to conceptualize the language at DBA level especially the ''ology'' of research methods. I struggled to understand this part of the research process.

The difficulty in applying research-derived information to an operational scale is a challenge most students battle with. Research results from one region may not be applicable to others – models require calibration. Legal and compliance issues vary with different jurisdiction; hence some standards do not apply in other countries. What is best practice in other countries may not be best practice in others for example the issue of gay marriages.

The disconnect between new knowledge and existing government policy and/or regulations may lead to significant delays in implementing new ideas. It took the King III Committee three years for their recommendations to be accepted by the South African Government. Students in my cohort researched in different fields and different countries; hence it was difficult to relate to what others are doing. As a result we could not graduate at the same time. Others were more occupied with work and family issues, which delayed the completion time. Some like this student although work and family matters were challenges, the issue of distance prolonged the project.

7 Overall experience

Easterby–Smith *et al* (1991: 46) argued that, "….. researchers are not keen on self-disclosure and they rarely explain precisely where their ideas and questions have come from." This is true of this researcher as this document seemed more difficulty than document 3. Although I tried to manage my diary closely and include most interesting events in this journey it was a challenge to produce a true reflective journal. Reflecting on my learning has been a learning experience in itself as I realized that, learning in this context does not mean acquiring more information but expanding the ability to produce the results we truly want in life.

Developing personal mastery goes beyond competence and skills, though it is grounded in competence and skills. People with high levels of personal mastery are more committed and they take more initiative. People with a high level of personal mastery live in a continual learning mode. They never arrive, argued (Senge 1999: 141 - 3). The learning experience was this new paradigm of personal mastery as I have imparked on a new journey of continuous development. Doing this has generated a force within myself called "creative tension." Tension by its nature, seeks resolution and the most natural resolution of this tension is for my reality to move closer to what I want. It's as if I have set up a rubber band between two poles of my vision and current reality. Personal mastery implies a willingness to invest what is necessary to create an environment that helps people become high-quality contributors (Senge *et al* 1994: 199).

Personal mastery developed me into new capabilities that allowed me to be able to move from time management to personal leadership which, (Covey *et al* 1994: 269) described as time management works in the system; leadership works on the system. The ability to work on the system is an achievement which will not only assist me in my personal growth but assist organizations that I will research for and be able to add value and put them on the competitive edge. Interaction with bank executives helped in my personal growth by understanding the dynamics that exist in organizations as different stakeholders represent different interests.

Senge et al (1994: 356) stated that, “for a team which practices the action learning discipline, it is helpful to have a reason to talk and learn – a situation that compels deliberation, a need to solve problems, the collective desire to create something new or a drive to foster new relationships with other parts of organizations.” For my learning set to solve problems we had to set out ground rules for conversation and interaction which assisted us in meeting our targets. Our learning set was much organized as each member had to follow the rules. These rules were meant to help the team shape its conversations, not as an end in themselves and they should never become so dominant that they override the team’s purposes and learning. The learning here was that these rules also apply to the organizations we work for.

The shift from working in the systems to working on systems has been the most achievement of this research journey. I have examined my impact on the last part of the research and its impact on me and I feel that I have achieved the objectives I set for myself at the beginning of the DBA programme as I have been introduced to new ways of thinking, writing, talking and learning. What is important is to be able to sustain the new ways and improve them with time. The DBA experience has allowed me to understand structural, system and cultural dynamics and how they are affected by organizations and how they affect organizations. These dynamics created the ability for me to be able to deal with various behaviours and skills necessary for me to apply across all managerial functions, transferring my learning to different occasions at different times under varying circumstances consistently.

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