Human resource managers as custodians of the King III

Frank de Beer

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Supervisor: Dr D.H. du Toit

Vanderbijlpark

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COMMENTS

The reader is reminded of the following:

- The references as well as the editorial style as prescribed by the *Publications Manual* (6th edition) of the American Psychological Association (APA) were followed in this thesis.
- The thesis is submitted in the format of a research article.
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Chapter 1: Research proposal and problem statement

Title
Human resource managers as custodians of the King III.

Keywords
Ethics, leadership, ethical behaviour, King III, corporate governance, ethical culture and HR management.

Problem Statement
Good corporate governance is a very rare competence in companies; the absence of which may result in fraud and unethical behaviour by management and employees. The Human Resource (HR) department is at the heart of an organisation and therefore has the responsibility to manage good corporate governance from a people perspective by using the King III code as guideline.

Overview of the problem
Internationally publicised corporate governance scandals such as Enron, Parmalat and WorldCom precipitated the need for tougher corporate governance measures worldwide (Coffee, 2005). The UK’s Cadbury Report was followed up with the Combined Code to regulate corporate governance, and the USA was the only country to fully legislate corporate governance through the Sarbanes-Oxley Act (Grunewald, 2007; Meyer, 2009). In addition, international organisations such as the Global Reporting Initiative (GRI), Organisation for Economic Co-operation and Development (OECD), and the United Nations Global Compact established ethical codes of doing business across national borders (Powel & Ghauri, 2008; Van Vuuren, 2008; Willis, 2003).

In South Africa’s history, South Africans have witnessed corporate scandals such as Leisurenet, Masterbond, Regal Bank, MacMed, Corpcapital, and Saambou. One of
the most recent corporate fraud scandals, Fidentia, involving public funds from the Transport Sector Education and Training Authority (TETA), SAA, Eskom and the SABC, indicates that poor corporate governance is not just confined to the South African private sector. The media’s on-going coverage of executive corruption, deception, fraud and greed makes us all aware of what unethical behaviour is. Thoughts on what constitutes an ethical company are not so clear. Just because a company avoids unethical behaviour, does not mean it is ethical. Different companies in different business environments may function by different ethical principles and yet still be deemed ethical in their contexts. While there are certain universal ethical values such as human life is precious, ideas about business ethics in China may, for example, be very different from those in South Africa. There is an important argument against the ‘comply or else’ framework: a ‘one size fits all’ approach cannot logically be suitable, because companies and their business contexts vary to such a large degree.

The implications for HR management as ethical leaders in a world where companies become international and globalised are vital and very difficult. The Human Resource profession in general is currently evolving beyond a strategic business partner role into being a driver of business success (Roodt & Meyer, 2010).

The above shows why it is so important to study the ethical leadership of HR management. Ciulla (2004) stated that the moral triumphs and failures of HR management as leaders carry great weight, since it has been found that morality is magnified in leadership. According to Ciulla (2004), HR management is often very effective mainly on the basis of being perceived by employees and senior management alike to be ethical. Lennick and Kiel (2007) suggest that effective leaders use a common set of principles and consistently applying them in their day-to-day activities.

Gilbert (2007) suggests that to establish an ethical culture within organisations, HR management needs to be role models. To be a role model, there needs to be an established set of ethical values agreed upon by top management and the board of directors. This study focuses on the importance of HR management as an ethical leader in an organisation which should contribute towards being drivers of business success.
To manage and implement the ethical values of the organisation, HR managers can make use of several tools, such as an ethical code of conduct and no tolerance policies. This study will focus on the King III code as guideline to manage and control ethical behaviour. “The underlying principles of the King III code are responsibility, discipline, transparency, accountability, independence, fairness and social responsibility. The majority of the King III code of governance principles relate to corporate and human conduct, and therefore ultimately affect the management of an organisation’s human resources” (Meyer, 2009, p. 3).

Le Roux (2010) indicated that a number of recommendations have been superseded by legislation due to the process of social and political transformation since the introduction of the first King Report in South Africa. Some of the legislation includes amongst a number of others, the Labour Relations Act, Basic Conditions of Employment Act and Employment Equity Act. These changes, together with various national and international corporate scandals, had led to the further development of corporate governance codes (Le Roux, 2010).

“The King III code is not a legal document or just a best practice guideline, but a comprehensive international governance regime of which compliance is considered to be essential for best practice. The King III code advocates an integrated approach to good governance in the interest of a wide range of stakeholders. It also embraces the fundamental principles of good financial-, social-, ethical- and environmental practice” (Meyer, 2009, p. 4).

The King III code mentioned five moral duties, namely: conscience, inclusivity (with reference to stakeholders), competence, commitment and courage which directors should adhere to (Institute of Directors, 2009; Meyer, 2009). Directors’ obligations and responsibilities include these moral duties. The King III code emphasises the importance of a company being a responsible corporate citizen with both a social and moral standing in society (Institute of Directors, 2009; Meyer, 2009). Being a responsible corporate citizen implies that the company’s board is responsible for the
company’s triple bottom line which refers to economic, social and environmental performance.

Meyer (2009, p. 5) listed the following benefits of sound governance:

- good governance can promote the reputation of an organisation;
- the needs of all stakeholders are considered, and constructive engagement promotes a more inclusive approach to governance, based on the principles of accountability and responsibility;
- more ethical organisations are created and maintained; and
- the sustainability of the organisation is enhanced by ensuring that the triple bottom line is optimised (economic-, social- and environmental outputs).

Therefore, the King III code is a valuable tool for the HR department in order to be seen as a strategic business partner; for directors to become ethical leaders in their organisations; and to establish and manage an ethical culture.

**Literature review**

The constructs of concern in this study are not well represented in literature. Therefore, this study will be an explorative study. From the literature the focus will be to understand the concepts of ethical management, how organisations’ human resource departments incorporate the King III code to manage good corporate governance and to create ethical cultures in companies. Definitions and explanations of these constructs will be outlined below.

The King III code states that organisations have an ethical obligation to govern properly. This implies that organisations also have an obligation to manage ethics; previously termed ethical management. Ethical management refers to an attempt to change ethical behaviour within the organisation. Ethics and ethical management are the responsibility of the HR department (Kuper, 2006; Meyer, 2009).
The King III code highlights important HR matters such as a transparent process of appointing new directors at board level, performance management policies and procedures, formal training and development of directors, board remuneration policies and procedures, as well as the continued professional training of new directors (Kuper, 2006). Roodt and Meyer (2010) also state that HR functions and responsibilities are specifically mentioned in the King III code as an important area for the identification and mitigation of risks. Risks and sustainability issues such as social development, transformation, ethics, safety and AIDS should be reported on annually by the Board of Directors (Institute of Directors, 2009). According to Meyer (2009, p. 6), “there is an implicit need for executives to interface with the board committee to ensure full strategic-level compliance with governance requirements, and to promote adherence to proper ethical considerations”.

Meyer (2009) also states that the draft King III code does not explicitly articulate clear practical mechanisms for interaction between an organisation’s HR functional area, practitioners and the board nominated sub-committee in respect of quality assurance in the ethical recruitment, selection, appointment, development, and performance management of directors. The King III code (section 131) leaves the role of director performance evaluations to the chairman of the board or an appointed external service provider, without clearly articulating how internal HR directors and executive managers can positively influence or be part of the above-mentioned process (Kuper, 2006; Meyer, 2009).

Consulting firm, Deloitte (2008), found that within HR departments the governance, risk and compliance issues are poorly managed which might result in major business concerns. The need for ethics in the application of HR practices, such as organisational development and change management interventions, can therefore not be over-emphasised (Van Tonder, 2006; Van Vuuren, 2008).

“HR management needs to address people risks which include organisations’ culture, talent shortages and retention, incompetence, employee performance, unethical behaviour, low morale, grievances and disputes, excessive absenteeism, employee wellness, sabotage, workplace violence, and non-compliance to regulations and laws” (Meyer, 2009, p. 10). The principles HR management believes in relate to moral
values that already lie within a person. Lennick and Kriel (2007) identified these principles as:

- integrity – acting consistently with principles, honest behaviour, standing up for what is right and keeping promises;
- responsibility – serving others, being responsible for personal choices and admitting mistakes and failures;
- compassion – actively caring about others; and
- forgiveness – letting go of the mistakes of self and others.

HR management also requires a capacity for dealing with complexity in order to lead ethically. Most business challenges involve conflicting ethical dilemmas between many stakeholders (customers, employees, suppliers and the public) and often these dilemmas can create conflicting expectations between all parties. The capacity for dealing with complexity and the ability to hold diverse perspectives at the same time enables a manager to resolve ethical dilemmas (Gilbert, 2007).

In this study the researcher will use Collins and McLaughlin’s (1996) proposed ethical decision-making model. This model suggests four approaches to ethical decision-making, namely determining ethics according to outcome; determining ethics according to process; determining ethics according to self-interest; and determining ethics according to virtues. In business today, especially with the focus on corporate governance and the principle of triple bottom line measures and sustainable development charters, an approach of ethical judgement based on virtues is applicable.

Collins and McLaughlin’s (1996) proposed ethical-decision-making model suggests four approaches to ethical decision-making:

- Determining ethics according to outcome – according to this approach the ethical base of a decision or outcome will be judged according to the outcome that is generated. The moral worth of the action or decision is determined solely by the consequence thereof and not by intention. How the outcome is achieved is irrelevant; the interest is more in the cost or the benefit that occurred.
Determining ethics according to process – another way of judging ethical behaviour is to evaluate the process or action used in arriving at the outcome, rather than the outcome itself. In this instance actions and decisions are evaluated not in terms of their outcome, but rather in terms of the moral value of the action or practice followed to arrive at the outcome. The argument is that a person may never know the full impact of his action; hence, keep your actions moral.

Determining ethics according to self-interest – this approach focuses on benefits that may accrue to the individual. The viewpoint is that the moral judgement of whether an act is right or wrong depends solely on the outcomes for oneself. The notion of egoism – what is good for self – underpins the free market system. Organisations often judge their own actions on the premise of the good they do for the business.

Determining ethics according to virtues – the final premise for the ethical evaluation of an action or decision is based on the old Greek philosophy of judging the action in terms of its purpose, which preferably should be virtuous. The action is judged in terms of the person’s intention to do well to all, including society. Virtues include traits such as honour, courage, and truthfulness.

In business today, especially with the focus on corporate governance and the principle of triple bottom line measures and sustainable development charters, an approach of ethical judgement based on virtues is applicable (Collins & McLaughlin, 1996).

Ethical decision-making consists of both rational and moral action, carefully assessing and evaluating information through a moral process and thereafter taking and implementing the most ethical choice (Collins & McLaughlin, 1996). The model consists of three phases: defining phase, the interactive data collection/distribution phase and the application of moral sensitivity phase. Each of these phases consists of two action steps (Collins & McLaughlin, 1996).
Collins and McLaughlin (1996) also state that HR management has a dual responsibility: to act morally and according to ethical standards; and to create a culture and climate conducive to ethical behaviour – so that employees act ethically.

The objective of this research is to perform an explorative study to identify the position of HR management as custodians of the King III code; management’s knowledge and understanding of the King III code; and its role in good corporate governance. The purpose of this study is to enhance effectiveness and efficiency of operations, compliance with regulations, business sustainability and to contribute towards reliable reporting and responsible behaviour of all stakeholders.

The following research questions can be formulated based on the above-mentioned description of the research problem:

- Does HR management know and understand the King III code?
- Does HR management use the King III code?
- Is HR management capable of using the King III code?
- What role does HR management play within corporate governance?
- How would HR management apply the King III code in an organisation?
- What guideline does HR management use to make ethical decisions?

**Research objectives**

The research objectives are divided into general and specific objectives.

**General objective**

The general objective of this research is to identify what the understanding of HR management is with regard to the King III code; what role HR management plays within corporate governance; how HR management implements or uses the King III code; and to identify if HR management has the capability to use the King III code.
Specific objective

The specific objectives of this research are:

- to establish what the role of HR management is with regard to the King III code; and
- to investigate what HR management understands of the King III code.

Paradigm perspective of the research

“A paradigm refers to the practice of scientific research within, and from, the frame of reference supplied by a dominant paradigm (Mouton & Marais, 1992, p. 245). A paradigm is a model that illustrates the researcher’s understanding of the literature. Paradigms and the supporting theory direct the research (De Vos, Strydom, Fouché, & Delport, 2005). Research is directed by a certain paradigm perspective, including the intellectual climate and the market of intellectual resources (Mouton & Marais, 1992).

Intellectual climate

The intellectual climate refers to the preferred choice of non-epistemological value systems that are underwritten in any timeline in a discipline (Mouton & Marais, 1992). Intellectual climate alludes to the researchers’ beliefs, values and assumptions that do not have a link with the epistemological views of the scientific research practice as it normally originates in a non-epistemological context (Mouton & Marais, 1992). Since intellectual climate takes paradigms and assumptions into account, it can be said that it will direct the research.

Discipline

This research falls within the scope of Industrial/Organisational Psychology that forms part of the Behavioural Sciences. The researcher scientifically focused this study on people within the work setting. The study of Industrial/Organisational Psychology includes scientific observation, evaluation, optimal utilisation and influencing of normal behaviour in interaction with the physical, psychological, social and organisational environment (Muchinsky, Kriek, & Schreuder, 2002).
The researcher focused this study on the following sub-disciplines of Industrial Psychology, namely Personnel Psychology, Organisational Psychology and Vocational Psychology (Muchinsky et al., 2002). Personnel Psychology refers to measuring and predicting differences in behaviour, and job performance of individuals (Muchinsky et al., 2002). Organisational Psychology refers to the influence of the work context on the attitudes and behaviours of employees (Muchinsky et al., 2002). Organisational Psychology focuses on role-related behaviour; pressures that groups can impose on individuals; social and group influences on individual behaviour (Muchinsky et al., 2002). Problems experienced by employees at work, such as ethical dilemmas, are considered in Vocational Psychology (Muchinsky et al., 2002).

**Meta-theoretical assumptions**

The literature review and the empirical study will both be conducted within the paradigm of Positive Psychology. According to Gable and Haidt (2005, p. 104): “Positive Psychology is the study of the conditions and processes that contribute to optimal functioning of people, groups and institutions”. According to Seligman and Csikszentmihalyi (2000) the objective of Positive Psychology is to analyse and identify capacities that people require in order to thrive.

Seligman and Csikszentmihalyi (2000) are concerned about modern psychologists and researchers that only concern themselves with studying human strengths and happiness rather than pathologies. Pittman (2003) states that individuals realise that the removal of problems does not in itself result in healthy individuals. Pittman (2003) suggests that this realisation is pointing researchers towards Positive Psychology and the active questioning of deficit-based theories.

Furthermore, Faller (2001) suggests that Positive Psychology motivates a person to find out what works; what is right; and what is improving. Positive Psychology focuses on improving the lives of "normal" and "gifted" people.

**Literature review**

According to Mouton and Marais (1992), the behaviouristic paradigm refers to a theoretical orientation originating from the starting point that scientific psychology
should only study observable behaviour. The following assumptions form the base of this paradigm: verification of the scientific claims; relationships between stimuli and responses, including environmental determinism emphasising the importance of the individual’s environment when behaviour is studied (Mouton & Marais, 1992). The aim of this study will be to explore and to shed some light on a topic which has financial implications and can be considered as a grey area for organisations. The purpose of studying business ethics is to obtain objective, social scientific knowledge of the ethical aspect of economic activity.

**Market of intellectual resources**

Mouton and Marais (1992) indicated that: “the market of intellectual resources refers to the collection of beliefs that directly involves the epistemological status of scientific statements. The two major types of epistemological beliefs are the theoretical beliefs and the methodological beliefs” (Mouton & Marais, 1992, p. 21).

**Theoretical beliefs**

“Theoretical beliefs can be described as all beliefs that can make testable judgements regarding social phenomena” (Mouton & Marais, 1992, p. 21). These judgements refer to the "what" and "why" of human phenomena; including all the models and theories used in research.

**Conceptual definitions**

The relevant conceptual definitions are given below:

- Leadership: The process of guiding and directing the behaviour of people in the work environment (Quick & Nelson, 2006).
- Ethics: In all the studies done on ethics, there is not one definition that looks the same; so in this study the following definition will be used: Ethics is concerned with decisions, behaviour and actions which are applicable to people’s personal and organisational lives (Rossouw, 2002).
Ethical leadership: The process of creating an organisational culture that encourages growth and development, direct and motivates individuals in order to achieve the organisation’s purpose (Malan & Smit, 2001).

Corporate governance: The process where entities are managed and controlled (Marx, Van der Walt, Bourne, & Hamel, 2004).

King III code: It is a report on corporate governance in South Africa which recommends procedural guidelines, including a company code of conduct and how to go about implementing it. “The underlying principles are discipline, transparency, accountability, independence, responsibility, fairness and social responsibility” (Meyer, 2009, p. 3).

Methodological beliefs
Methodological beliefs can be defined as beliefs that make judgements as to the disposition and structure of science and scientific research (Mouton & Marais, 1992). This includes scientific-philosophical traditions and the most important methodological models (qualitative and quantitative).

Research method
The specific objectives of this study consist of two phases, a literature review and an empirical study.

Phase 1: Literature review
Phase one consists of a complete review regarding HR management as custodians of the King III code. The consulted sources include:

- journal articles;
- text books;
- internet-based search engines (Google, Yahoo, Google Scholar);
- article databases (Ebscohost, SA media etc.); and
- seminar handouts and information.
Phase 2: Empirical study

Research design, participants and data collection methods form part of the empirical study.

Research design

The study will be conducted in an appropriate manner according to the aim of the research design (Muchinsky et al., 2002). A design is used to structure the research to show how all the major parts of the research project (participants) function to address the research questions (Mouton & Marais, 1992).

This study is both a descriptive and explorative study. De Vos et al., (2005) define descriptive research as the specifics of a situation, social setting or relationship concentrating on the why and how questions. De Vos et al., (2005) also defines exploratory research as a method of gaining insight into a situation, phenomenon, community or individual of which the utilisation should arise as a result of limited information within a new area of interest.

The objective of this approach is to gain insight into the ethical leadership of HR management, as well as the extent to which it uses the King III code as guideline in a qualitative study.

In this study the researcher wants to determine the profile of an HR manager in terms of an ethical leader, and determine HR management’s competence as well as awareness of good corporate governance by using the King III code. Semi-structured interviews will be used as method of accumulating insight and understanding. Behavioural questions and actual scenarios of cases will be posed as questions.

Participants

Random sampling will be used to select HR managers and directors from various industries. The researcher will acquire permission to conduct the research. The researcher will ensure that the research objectives are clearly indicated and that the research procedure is explained. The researcher will inform the participants of the importance of the research study as well as the procedure that will be followed. The
researcher will inform both the participants and the organisation of the research findings.

**Data collection method**

Data will be collected by utilising semi-structured exploratory interviews with the selected participants. Participants will be asked to sign a consent form and will be notified of the importance of the research beforehand. The evaluation of questions prior to the interviews will enable the researcher to obtain specific and correct information from participants by asking pre-determined questions. The researcher will formulate the interview questions in such a way that the participants are enabled to contribute to the conversation. All interviews will be recorded on a voice recorder and the data will be transcribed verbatim. All data will be checked by an independent researcher. On completion of the study, all participants will be notified that all recordings will be erased and that their identities will remain anonymous throughout the entire process. Participants can withdraw from the research at any given time.

**Field notes**

The researcher utilised field notes in every interview. According to Berg (2007), field notes can be described as a written account of what the researcher experienced during the interview. Field notes include components such as sounds, sights, thoughts, preconceptions, emotions, expectations and prejudices (Berg, 2007).

**Physical setting**

To accommodate participants, interviews will be scheduled to take place at a venue suitable for them. The researcher will make sure that the setting is comfortable. Attention will be given to the venue’s climate, lighting, noise levels, layout, privacy and other important factors influencing the setting.

**Trustworthiness**

To ensure the trustworthiness of the findings, Guba’s strategies for qualitative research will be applied. Consideration of the strategies (Krefting, 1991) includes:
a) Credibility – this includes checking the true value of findings which will be obtained by checking field notes, triangulation, peer examination and independent coding.

b) Transferability – ensuring applicability of the findings, this will be obtained through comparison of adequate data and the description of the data.

c) Dependability – consistency of the data which will be acquired by means of an audit, keeping unprocessed material, giving a clear and full description of the research method that will be used, the same process will be followed during triangulation, peer examination and code-recode procedure.

d) Conformability – researcher applied the criterion of neutrality or keeping a distance in order not to influence the research, also using triangulation and code-decode procedure.

Ethical consideration

The researcher will adhere to the following ethical considerations: not to mislead or deceive the participants; to aim to be fair, honest and respectful towards others at all times. The researcher considers the privacy, autonomy and confidentiality of all participants as of the utmost important. The researcher will aim to not discriminate and to be sensitive towards the cultural or individual differences among participants. The whole research study will be conducted whilst keeping in mind the welfare of others. It is imperative for the researcher to minimise any harm befalling research participants as a result of their participation in the study (Foxcroft & Roodt, 2006; Struwig & Stead, 2001). No benefits or compensation will be given to any participant for taking part in the study. Participants will receive feedback on request.

Chapter division

The following chapters will be represented in this mini-dissertation:

Chapter 1: Research proposal and problem statement
Chapter 2: Research article
Chapter 3: Conclusions, limitations and recommendations
REFERENCES


Chapter 2 - Research article
Human resource managers as custodians of the King III

ABSTRACT
The objective of this research was to perform an explorative study to identify the position of Human Resources (HR) departments in companies in South Africa as custodians of the King III code; their knowledge and understanding of the King III code; and their role within corporate governance. The HR department has the responsibility to manage corporate governance by using the King III code as guideline. The main research questions were: Does HR management know, understand, apply and have the ability to use the King III code in terms of ethical decision making and what role does the HR department play within corporate governance? A random sample of available HR managers, senior HR consultants and HR directors was taken and semi-structured interviews were conducted. The results indicated that the respondents did not know, understand or use the King III code.

Key terms: Ethics, leadership, ethical behaviour, King III code, corporate governance, corporate citizenship, ethical behaviour, HR management.
“The King III code became necessary because of the anticipated new Companies Act and changing trends in international governance. As with the King I and the King II codes, the King III committee endeavoured to be at the forefront of corporate governance internationally” (Meyer, 2009, p. 4). Meyer (2009), Institute of Directors (2009) and Price Waterhouse Coopers (2009) emphasised that the King code is not a legal document or just a best practice guideline, but a comprehensive international corporate governance regime. Companies are expected to comply since compliance is considered to be essential for best practice. If companies do not comply and an incident occurs, companies could be required to explain why they did not comply. The consequences for non-compliance could be severe as it could tarnish the company’s reputation (Institute of Directors, 2009; Meyer, 2009; Price Waterhouse Coopers, 2009). The King III code advocates an integrated approach to good governance, in the interest of a wide range of stakeholders. The King III code also highlights the importance of ethics at board, management and staff levels, and in particular, the need for an ethical culture. The King III code embraces the fundamental principles of financial-, social-, ethical- and environmental practice (Institute of Directors, 2009). Price Waterhouse Coopers (2009, p.2) found that the King committee has again been at the forefront of governance “by focusing on the importance of reporting annually on how a company has both positively and negatively affected the economic life of the community in which it operated during the year under review.

The first chapter of the King III code deals with ethical leadership and corporate citizenship. Price Waterhouse Coopers (2009, p.5) indicated that: “the King III code states that companies need to be responsible corporate citizens. That implies an ethical relationship of responsibility between a company and the society in which it operates”. Price Waterhouse Coopers (2009, p. 64) stated that: “companies, apart from rights, also have legal and moral obligations in respect of their economic-, social- and natural environments”. Institute of Directors suggests that companies should protect and invest in the well-being of the economy, society and the natural environment.

Meyer (2009) stated that corporate governance results from effective leadership. Leaders are required to provide strategy, direction and need to establish the ethical code of conduct as well as the identification of the organisational values that will influence and guide practices
and behaviour with regard to sustainable performance. Good corporate governance is a very rare competence in companies. The Human Resources (HR) department could be seen as the heart of an organisation, as the HR department influences an organisation’s culture, it identifies and implements legislative practices, policies and procedures of the organisation. The HR department is responsible for selecting and recruiting the organisation’s workforce, as well as for supporting and developing employees (Meyer, 2009).

The objective of this research is to perform an explorative study to identify the position of HR management as custodians of the King III code, in order to determine what is HR management’s knowledge and understanding of the King III code; and to identify the role of HR management in corporate governance. The purpose of this study is to contribute to effectiveness and efficiency of operations, create awareness of HR management’s compliance role with regard to regulations, to support business sustainability and to contribute towards reliable reporting and responsible behaviour of all stakeholders.

The following research questions were formulated based on the above-mentioned description of the research problem:

- Do HR management know and understand the King III code?
- Does HR management use the King III code?
- What role does the HR department play in an organisation’s corporate governance?
- How does HR management apply the King III code in an organisation?
- What guideline does HR management use to make ethical decisions?

Overview of the problem
Internationally publicised corporate governance scandals such as Enron, Parmalat, Waste Management, WorldCom, and Qwest Communications precipitated the need for stricter corporate governance measures worldwide (Coffee, 2005). The UK’s Cadbury Report was followed by the Combined Code to regulate corporate governance (Grunewald, 2007; Meyer, Roodt, & Robbins, 2010). The USA was the first country to legislate corporate governance through the Sarbanes-Oxley Act (Grunewald, 2007; Meyer, 2009). International organisations such as the Global Reporting Initiative (GRI), Organisation for Economic Co-
operation and Development (OECD), and the United Nations Global Compact also established ethical codes for doing business across national borders (Powel & Ghauri, 2008; Van Vuuren, 2008; Willis, 2003).

In South Africa corporate scandals are regular occurrences (Meyer, 2009). South Africans have witnessed corporate scandals such as Leisurenet, Masterbond, Regal Bank, MacMed, CorpCapital and Saambou, to list a few. One of the most recent corporate fraud scandals, Fidentia, involved misappropriation of public funds from the Transport Education and Training Authority (TETA). Scandals at organisations such as SAA, Eskom and the SABC, indicated that poor corporate governance is not confined to only the South African private sector (Meyer, 2009). The media’s on-going coverage of executive corruption, deception, fraud and greed creates a public awareness of unethical behaviour and the importance of good governance. If a company avoids unethical behaviour, it does not mean that it is ethical. Different companies in different business environments may function by different ethical principles and are still deemed ethical in their contexts (Rossouw, 2002). While there are certain universal ethical values such as “human life is precious”; ideas about business ethics in China may, for example, be very different from those in South Africa (Rossouw, 2002). The implications for HR management as ethical leaders in a world where companies become increasingly international and globalised are vital and very difficult (Meyer, 2009).

The HR profession in general is currently moving from a role where it is seen as strategic business partners, including HR management in decision-making, towards being drivers of business success through becoming an HR governor in the organisation (Roodt & Meyer, 2010). This means that HR management is seen as the governor of sustained performance and compliance within the company. HR management needs to ensure that companies perform optimally, while still complying with legislation and ensuring best practice. Some of the ethical challenges companies and HR management have to face include fraud, corruption, theft, espionage, sabotage, money laundering, lies, crime, cybercrime, nepotism, favouritism, price fixing, poor governance, and unethical behaviour. These economic realities indicate the need for HR management to become ethical leaders or role models. According to Ciulla (2004), employees generally perceive HR managers as being ethical and effective leaders.
Madsen and Gygi (2005) interviewed the international leadership specialist, John H Zenger. Zenger indicated that research on ethical behaviour has proven that assertiveness is a crucial component of behaviour that leads to integrity. Assertive behaviour in the ethical context refers to the willingness to declare any discrepancies from ethical behaviour and requirements; and the ability to refuse to act on an instruction if it requests unethical behaviour. HR managers as leaders also require a capacity for dealing with discrepancies in order to lead ethically (Madsen & Gygi, 2005). HR managers are exposed to complex ethical dilemmas. Business practices include numerous stakeholders in everyday operations, for example shareholders, customers, employees, suppliers and influence of external parties such as the public and community. The dilemma is expressed when judgement of ethics becomes clouded in everyday operational dealings between different stakeholders (Madsen & Gygi, 2005). HR management should be able to see the implications or impact of the situation on the bigger picture. Ethical leaders’ characters can be described as value-centred; they act with integrity and compassion, yet they are assertive and have the capacity to deal with ethical dilemmas effectively (Gilbert, 2007). These leaders take responsibility for their actions and decisions. They acknowledge and forgive themselves and others for mistakes. According to Gilbert (2007), an ethical leader such as an HR manager should be able to manage ethical dilemmas and have the ability to hold multiple perspectives at the same time.

HR management is responsible for creating an environment where the organisation’s culture is born and sustained which results in the way things are done within the organisation (Meyer et al., 2011). Gilbert (2007) suggests that to establish an ethical culture within organisations, HR management needs to be role models. To be a role model, there needs to be an established set of ethical values agreed upon by top management and the board of directors. Many organisations still perceive the role of the HR department as a supporting or administration department and not a strategic business partner or governor of performance and compliance (Kuper, 2006).

As ethical leaders, HR managers need to manage and implement ethical cultures in organisations by establishing clear ethical values (Meyer, 2009). To manage and implement the ethical values of the organisation, HR managers can make use of several tools, such as an ethical code of conduct and no tolerance policies. This study will focus on the King III code
as a guideline to manage the ethical behaviour of all levels of employees, including directors within an organisation. “The underlying principles of the King III code are responsibility, discipline, transparency, accountability, independence, fairness and social responsibility. The majority of the King III code of governance principles relate to corporate and human conduct, and therefore ultimately affect the management of an organisation’s human resources” (Meyer, 2009, p. 3).

Le Roux (2010) indicated that a number of recommendations have been superseded by legislation due to the process of social and political transformation since the introduction of the first King Report in South Africa. Some of the legislation includes the Labour Relations Act, Basic Conditions of Employment Act and Employment Equity Act. These changes, including national and international corporate scandals contributed to the development of corporate governance codes (Le Roux, 2010).

The King III code mentioned five moral duties, namely: conscience, inclusivity (with reference to stakeholders), competence, commitment and courage which directors should adhere to (Institute of Directors, 2009; Meyer, 2009). Director’s obligations and responsibilities include these moral duties. The King III code emphasises the importance of a company being a responsible corporate citizen with both a social and moral standing in society (Institute of Directors, 2009; Meyer, 2009). Being a responsible corporate citizen implies that the company’s board is responsible for the company’s triple bottom line which refers to economic, social and environmental performance. The company should protect, enhance and invest in the well-being of the economy, society and the natural environment (Institute of Directors, 2009; Meyer, 2009).

Meyer (2009, p. 5) listed the following benefits of sound governance:

- good governance can promote the reputation of an organisation;
- the needs of all stakeholders are considered, and constructive engagement promotes a more inclusive approach to governance, based on the principles of accountability and responsibility;
more ethical organisations are created and maintained; and

- the sustainability of the organisation is enhanced by ensuring that the triple bottom line is optimised (economic-, social- and environmental outputs).

Meyer (2009) indicates that the King III code can be a valuable tool for HR management. The King III code can guide HR management as strategic business partners, and can assist with managing an ethical culture.

**Literature review**

The constructs of concern in this study are not well represented in literature. Key concepts are conceptualised in this study, based on existing literature about ethical management. Definitions and explanations of these constructs are outlined below.

The King III code states that organisations’ managements have an ethical obligation to govern properly (Institute of Directors, 2009; Meyer, 2009; Price Waterhouse Coopers, 2009). This demand to ‘govern properly’ implies that organisations have an obligation to manage ethics, formally termed ‘ethical management’. Ethical management refers to an attempt to change ethical behaviour within the organisation. There is consensus in literature that ethical behaviour in companies can be changed (Meyer, 2009; Rossouw, 2002). Rossouw (2002, p. 3) stated that:

“Ethics concerns itself with what is good or right in human interaction. Ethics involves the consideration of the ’good’ (right), the ‘self’, and the ‘other’. It is vital that all three these concepts are included in the definition of ethics. Should the concept ‘good’ be neglected, the unique nature of ethics collapses: ethics is not merely concerned with the interaction between a ‘self’ and an ‘other’, but with the quality of interaction – goodness (what is right) – between the self and others. A
similar distortion occurs when the ‘self’ is excluded from the definition of ethics. If the ‘self’ is excluded, the concern is merely about what is good for others, without taking the interests of the ‘self’ into consideration. This form of altruism is probably unattainable, as it is almost impossible for someone to ignore his/her own interests. It is also dangerous to neglect one’s own interests, as one’s own well-being is a pre-requisite for balanced and on-going interaction with other people.

Equally, the ‘other’ cannot be excluded from the definition of ethics, as it leads to selfishness. A concern merely for what is good for the self neglects the very nature of ethics, which is to ensure the best interest of oneself and others. Ethical behaviour considers not only what is good for oneself, but that also considers what is good for others. As such it contrasts ethical behaviour from selfish behaviour, but not from self-interest behaviour. When one knows one’s behaviour may have a bad effect on others, but cares only for what is good for oneself, such action is selfish and unethical. If, on the contrary, one seeks to serve one’s own interest, whilst simultaneously caring about the interest of others, then one’s behaviour is self-interested behaviour whilst also being ethical.”
Ethics and ethical management are one of the responsibilities of the HR department and a crucial element of establishing an ethical culture within an organisation (Kuper, 2006; Meyer, 2009).

The King III code highlights important HR matters such as a transparent process of appointing new directors at board level, performance management policies and procedures, formal training and development of directors, board remuneration policies and procedures, as well as the continued professional training of new directors (Kuper, 2006). Roodt and Meyer (2010) also state that HR management is specifically mentioned in the King III code as important for the identification and mitigation of risks. Risks and sustainability issues such as social development, transformation, ethics, safety and AIDS should be reported annually by the Board of Directors (Institute of Directors, 2009). According to Meyer (2009, p. 6), “there is an implicit need for executives to interface with the board committee to ensure full strategic-level compliance with governance requirements, and to promote adherence to proper ethical considerations”.

Consulting firm, Deloitte (2008) found that within the HR department, the governance, risk and compliance issues are poorly managed to the extent that they become major business risks. The need for ethics in the application of HR practices such as organisational development and change management interventions cannot be over-emphasised (Van Tonder, 2006; Van Vuuren, 2008). Meyer et al. (2011, p. 1) raised the following ethical challenges to HR professionals, amongst others, to answer the following questions within their organisations:

- If HR management focuses more on ethics in recruiting and selecting staff, will it make a contribution to ensuring that the HR department creates a larger pool of ethical employees in the organisation?
- Does HR management concentrate sufficiently on ethics and values when inducting new employees?
- Is HR management behaving ethically in balancing the need for compliance and performance as part of the organisation’s performance management systems?
• Does HR management facilitate learning and development in an ethical manner, for example when selecting and managing training providers, or when making decisions about learners entering learning programs?
• When dealing with employees and unions as part of HR’s employment relations system, do HR stakeholders behave in a fair, equitable and ethical manner?
• In utilising salary benchmarking in remuneration, does HR management encourage greed and reinforce excessive pay packages and thereby widen the gaps between the rich and the poor in one of the most unequal societies in the world?
• Does HR management contribute towards creating an ethical culture and reduce unethical behaviour?
• How effective is HR management in influencing and guiding management on ethical issues and the promotion of an ethical culture within the organisation?

“HR management needs to address people risks which include organisations’ culture, talent shortages and retention, incompetence, employee performance, unethical behaviour, low morale, grievances and disputes, excessive absenteeism, employee wellness, sabotage, workplace violence, and non-compliance to regulations and laws” (Meyer, 2009, p. 10). The principles they believe in relate to moral values that already lie within most people. Lennick and Kriel (2007) identified these principles as:

• integrity – acting consistently with ethical principles in mind, honest behaviour, standing up for what is right and keeping promises;
• responsibility – serving others, being responsible for personal choices and admitting mistakes and failures;
• compassion – actively caring about others; and
• forgiveness – letting go of the mistakes of self and others.

HR management as leaders requires a capacity for dealing with ethical dilemmas in order to lead ethically (Madsen & Gygi, 2005). Most business challenges involve ethical dilemmas to many parties – stakeholders, customers, employees, suppliers and even the public – and often their interests are in conflict. Capacity for dealing with complexity and the ability to hold multiple perspectives at the same time enables a manager to resolve ethical dilemmas (Gilbert, 2007).
In this study, Collins and McLaughlin’s (1996) proposed ethical decision-making model will be used as an example of an ethical decision-making instrument. This model suggests four approaches to ethical decision-making:

- Determining ethics according to outcome – according to this approach the ethical base of a decision or outcome will be judged according to the outcome that is generated. The moral worth of the action or decision is determined solely by the consequence thereof and not by intention. How the outcome is achieved is irrelevant; the emphasis is on the end result of the decision.

- Determining ethics according to process – another way of judging ethical behaviour is to evaluate the process or action used in arriving at the outcome, rather than the outcome itself. In this instance actions and decisions are evaluated not in terms of their outcome, but rather in terms of the moral value of the action or practice followed to arrive at the outcome. The argument is that a person may never know the full impact of his action; hence, keep your actions moral.

- Determining ethics according to self-interest – this approach focuses on benefits that may accrue to the individual. The viewpoint is that the moral judgement of whether an act is right or wrong depends solely on the outcomes for oneself. The notion of egoism – what is good for self – underpins the free market system. Organisations often judge their own actions on the premise of the good they do for the business.

- Determining ethics according to virtues – the final premise for ethical evaluation of action or decision is based on the old Greek philosophy of judging the action in terms of its purpose, which preferably should be virtuous. The action is judged in terms of the person’s intention to do well to all, including society. Virtues include traits such as honour, courage, and truthfulness.

In business, especially with the focus on corporate governance and the principle of triple bottom line measures and sustainable development charters, an approach of ethical judgement based on virtues is usually most applicable (Collins & McLaughlin, 1996). Ethical decision-making consists of balancing rational and moral action, carefully assessing and evaluating information through a moral process and thereafter taking and implementing the most ethical choice (Collins & McLaughlin, 1996).
The model consists of six steps. Each of these steps consists of action steps (Collins & McLaughlin, 1996). These steps are described below:

*Figure 1. Ethical Decision-Making Model.*

**Step 1: Defining phase**
The first action to take when faced with an ethical decision is to define the extent of the difficulty. Firstly, define what the decision is that should be taken and thereafter define the ethical dilemmas for consideration. The earlier the decision and potential ethical dilemma has been defined, the more likely that the decision will be informed and deliberate.
Step 2: Interactive data collection/distribution
Ethical judgement requires that the unique facts of the situation are present. Both business facts as well as moral information may be required. Poor decisions often result from like-minded people reinforcing the views of their colleagues discreetly. This process will both enhance the quality of the decision and assist those whose views are not adopted to accept the process as a fair one. (In step 5, after the decision has been taken, the leader will discreetly and appropriately inform key role-players about the outcome of the process.)

Step 3: Apply moral sensitivity
Moral sensitivity is of particular importance during Steps 3 and 4 of the process. In Step 3 this will entail that the possible implications of various decisions be considered in terms of the individual, as well as the organisational and community impact. Fredericks and Hornett (2004) referred to moral sensitivity as when leaders consider and understand how their actions impact others positively and negatively in order to be ethical.

Step 4: Apply moral judgement
This step is the final process for determining the morality of the planned action. Firstly the leader will determine if all factors were considered; thereafter he or she will apply moral judgement. This could only be done through asking a set of questions (Salma, 2008). These questions should relate to the quality of information gathered, the alignment of the planned decision to the organisation’s values and vision, potential consequences of the decision and the legality and fairness of the decision. Should the leader find that information is not adequate, he or she will revert back to step 2 of the process. After consideration, the leader will select the course of action that is the right one to follow, based predominantly on the effects (Fredericks & Hornett, 2004).

Step 5: Take moral action
The leader is now ready to implement the moral action or delegate the action to be implemented. During this step all relevant parties should be discreetly and appropriately informed about the outcome of the decision-making process.
Step 6: Define the outcome, evaluate
This step takes one back to the defining phase. The final step in the process is to evaluate and define the outcome of the moral decision, and hence, action and may bring an end to the process or lead to a redefinition of an ethical dilemma.

Method

Research Design
Muchinsky, Kriek, and Schreuder (2002) stated that the objective of the research design is to direct the study to ensure that it is conducted in an appropriate manner. The major parts of the research project are structured through the design in order to address the research questions (Mouton & Marais, 1992).

Research Approach
This study is both a descriptive and explorative study. De Vos et al., (2005) define descriptive research as a picture of the specific details of a situation, social setting or relationship and focuses on how and why questions. De Vos et al., (2005) also defines exploratory research as a method of gaining insight into a situation, phenomenon, community or individual of which the utilisation should arise as a result of limited information within a new area of interest.

A phenomenological research design was utilised throughout the qualitative research process. Creswell (1998) stated that this research design aims to define the meaning of experiences of a phenomenon, topic or concept for individuals. He also stated that this research design aims to reduce these experiences to a central meaning. De Vos, Strydom, Fouché, and Delport (2011) indicated that this research design differs from other research designs by aiming to derive the meaning and essence of experiences, instead of measurements and explanations thereof. Creswell (1998) stated that the phenomenological design aims to describe experiences through first person accounts in informal conversations and during interviews, for the purpose of understanding human behaviour. This research design was found most applicable due to the small number of participants in this research study as well as the aim to develop patterns and relationships of meaning.
Hypotheses were not formulated, because of the exploratory nature of the study. The researcher early in the study established the philosophical grounds that would guide the study. De Vos et al. (2011) stated that a general description of the phenomenon as seen through the eyes of people who have experienced it first-hand, is the preferred method of the phenomenological study. The findings are then related to an existing body of theory and research.

**Research Method**

The different methodological elements of the research study will be addressed below.

**Research setting**

The research setting took place in different locations. The different locations included board rooms, an office, a coffee shop and at home. The location of the research setting depended on the preference of the participants (Mack, Woodsong, MacQueen, Guest, & Namey, 2005). The researcher ensured that the setting of the interviews were comfortable. The researcher paid attention to the venue’s climate, lighting, noise levels, layout, privacy and other factors that influenced the setting. The researcher needed to ensure that all the participants were comfortable in order for them to speak openly and truthfully.

**Entrée and establishing researcher roles**

Electronic invitations were sent out to potential participants to partake in the study. The invitation explained the identity of the researcher, the purpose and duration of the study, the expected role of the participant and the confidentiality agreement (De Vos et al., 2011; Berg, 2007). The invitation also included the contact details of the researcher and research supervisor (De Vos et al., 2011).

The researcher clarified that his role was to ask questions to comprehend the phenomenon under study. Furthermore, the researcher notified all the participants that they could withdraw from the study at any given time. The researcher ensured that all information
gathered in the interviews was safeguarded. The information was used in such a way that the information cannot be linked to an identifiable person (De Vos et al., 2011; Berg, 2007).

The participants were assured by the researcher that there were no right or wrong answers and that their personal experiences and opinions were important to the study. Corbetta (2003) advised that the researcher should maintain a balance between keeping the research participants on track, while avoiding influencing the participants’ thoughts that could have an impact on the answers. The researcher emphasised the participants’ perspective by acknowledging and treating the participants as the experts. The researcher did not ask any leading questions. The researcher phased open-ended questions, one question at a time, verifying unclear responses, and using probes (Mack et al., 2005).

The researcher employed semi-structured interviews organised around the areas of particular interest while allowing flexibility in scope and depth (Mack et al., 2005). The aim of the interviews was not to get answers to particular questions nor to test hypotheses, but to gain an understanding of the experience of participants and the meaning they make of that experience regarding the King III report.

**Sampling**

Purposive sampling was used to select HR managers, HR executives and HR directors from various industries as “a point of departure”, theoretical sampling was utilised as the research evolved to direct the researcher to participants who could contribute to the study (De Vos et al., 2011; Berg, 2007). The researcher found that it was difficult to get candidates from a top level within the organisation that were willing to participate in the study, due to the sensitivity of the research topic. The researcher, however, identified participants that represent HR management, have decision-making powers in various industries and have the experience of HR functions on all levels within organisations. The five participants were selected based on their roles, responsibilities and contributions to the field of HR and to their industries. The five participants who voluntarily participated, comprised of one within the security industry, two within the services industry and two senior HR consultants who work in various industries, including government. The backgrounds of participants are as follows:
Participant A is an HR director at a company with approximately 700 employees throughout South Africa and Africa. The company is part of a group of companies reporting to a holder company. Participant A reports directly to the managing director and has been with the company for more than 10 years. Participant A holds a university degree.

Participant B is an HR director at a security firm with approximately 4000 employees. Participant B reports directly to the managing director and has been with the company for 3 years. Participant B holds a master’s degree and is also a lecturer in the field of HR.

Participant C is the chief executive officer of a board that regulates people practices and has been with the board for three years. The board has approximately 6000 HR members in all industries throughout South Africa. Participant C holds a PhD in the HR field and he is also a professor in the HR department of a university.

Participant D is chief executive officer of his own consulting company which employs approximately 20 employees. Participant D consults in South Africa as well as Africa in a wide variety of industries. Participant D holds a university degree.

Participant E is an industrial psychologist at an HR consulting firm that employs approximately 50 employees and works in government and other industries. Participant E holds a master’s degree in Industrial Psychology.

Data Collection method
The researcher started the field study, interviewing the five candidates. The researcher gained more confidence with the practical aspects of establishing access, making contact, and conducting the interview, as well as becoming alert to his own level of interviewing skills. After the five interviews had been completed, the researcher revised the questions and analysed the data. To clarify some of the data, the researcher interviewed the five candidates.
for a second time. Questions were formulated to enable the participants to contribute to the conversation.

De Vos et al. (2011) advised that semi-structured interviews would contribute to accumulating insight and understanding. The interviews were exploratory and the same open-ended questions were asked (Berg, 2007). The following pre-determined questions were asked during the interviews:

- Have you ever heard about or used the King III code?
- In your opinion, how would/do you apply the King III code in your organisation?
- What part does HR management play within corporate governance?
- What guideline does HR management use to make ethical decisions? The researcher proposed Collins and McLaughlin’s (1996) ethical decision-making model as an example of an ethical decision-making instrument that can be used by HR management. According to these authors, HR management has a dual responsibility:

  1. to act morally and according to ethical standards; and
  2. to create a culture and climate conducive to ethical behaviour – so that employees act ethically too.

In business, especially with the focus on corporate governance and the principle of triple bottom line measures and sustainable development charters, an approach of ethical judgement based on virtues is usually most applicable (Collins & McLaughlin, 1996).

The objectives of this approach are to gain insight into HR management as custodians of the King III code, their understanding of the King III code, and their role in corporate governance.

The researcher analysed all the interviews and identified the reoccurring themes, and then presented the data to the external party to analyse and identify the themes.
Recording of data
All interviews were recorded and the data was transcribed verbatim, corrected, edited and grouped into themes before being analysed and triangulated as prescribed by Berg (2007). A signed consent form was utilised to obtain permission from participants; oral consent was sought to record the interviews. A password protected computer hard drive was used to store the recordings and transcriptions. The researcher made backups of the research data and stored these on to two different external hard drives. The researcher securely stored the hard drives in separate locations from the original hard drive. Berg (2007) stated that the aim of research is for the researcher not to cause any harm and to ensure that the researcher had taken all reasonable steps in order to protect the data and participant.

The data was triangulated with an external party who verified the themes and findings of the researcher. De Vos et al. (2011) suggested triangulation as a method to reduce bias. The external party is a registered chartered accountant at the South African Institute of Chartered Accountants (SAICA) that provided valuable insight into the financial sphere and the impact of other legislation. The external party’s knowledge of the Company’s Act as well as corporate governance gave clarity to HR management’s role.

The researcher made field notes during every interview. De Vos et al. (2011) and Berg (2007) explained that field notes are a written account of the experience of the researcher during the interview. This will include factors like preconceptions, emotions, expectations and prejudices.

Data Integrity
Denzin and Lincoln (2005) stated that issues of trustworthiness refer to the quality of data in qualitative research. Guba’s strategies for qualitative research will be applied in order to ensure the trustworthiness of the findings. Consideration of the strategies (Krefting, 1991), includes:

a) Credibility – Beck (1993) stated that the credibility of the data reflects the accuracy and plausibility of the research study’s findings. This includes checking the true value of
findings which were obtained by checking field notes, triangulation, peer examination and independent coding.

b) Transferability – ensuring applicability of the findings; this was obtained by comparison of adequate descriptive data and dense description of the data.

c) Dependability – consistency of the data which will be acquired by means of an audit, keeping unprocessed material, giving a clear and full description of the research method that will be used, the same process will be followed during triangulation, peer examination and code-recode procedure.

d) Conformability – researcher applied the criterion of neutrality or keeping a distance in order not to influence the research, also using triangulation and code-decode procedure.

Findings
In this study the researcher wanted to determine the profile of an HR manager in terms of being an ethical leader as well as to determine HR management’s awareness of good corporate governance by using the King III code.

After analysis of the semi-structured interviews, the frequency of recurring themes was established. The following recurring themes were identified:

- Culture – occurred in five of the interviews.

  Candidate A stated that he understands that HR management should ensure an ethical culture by ensuring that the correct policies and procedures are in place and also that all HR staff act ethically and become role models to the rest of the organisation.

  Candidate B suggested that the governance of ethics is also addressed in the King III code where the code states that the board should ensure that the company’s ethics is managed effectively. HR departments are thus seen as playing an important role in managing and building an ethical culture in the organisation.

  Candidate C stated that the King III emphasizes the importance of ethics at board, management and staff levels. The code highlights the need for an ethical culture within organisations. The participant suggested that an ethical code will not instil an
ethical culture within organisations by itself. He stressed that HR practitioners need to become a strategic business partner (which affects every governance, risk and compliance issue with a human element) and move away from the administration or “steward” role (which centres on workforce compliance and administration).

Candidate D suggested that it is HR management’s role to provide information, develop ethical cultures and environments. There needs to be an organisational value and employee value fit within an organisation. HR management is required to advise and assist line management on conducting interviews fairly and legally when probing for character.

Candidate E stated that part of the strategy of creating an ethical culture within an organisation should be an induction programme where new employees can experience the ethical culture and where top management talks about the culture to the employees.

All participants highlighted the importance of an ethical culture within organisations. Two participants acknowledged the King III code and the guidelines that the code provides to govern the ethical culture of an organisation. All candidates agreed that HR management has a role to play in developing and implementing the organisation’s code of ethics, policies and procedures as well as ensuring that employees’ values are aligned to the organisation’s value.

- Reward and remuneration – recurred in five of the interviews.

Candidate A stated that HR management has an important role in advising remuneration committees on fair and equitable remuneration for directors.

Candidate B suggested that HR management should be responsible for salary benchmarking based on job profiles, with a clear job grade system. These measures would ensure that remuneration offered to candidates is fair and the organisation does not discriminate against any person or position. The remuneration policy and procedure also need to be clear and adherence to these should be compulsory. The same would apply to remuneration based on performance. This will aid organisations
in paying fair salaries and bonuses and also ensure that the process is transparent and aligned with legislation.

Candidate C also stated that HR management should assist the board by supporting the remuneration committee. He also stated that people practices of remuneration play a key role in the development and adherence to corporate governance practices and principles.

According to Candidate D, HR managers should be part of the following committees: ethics, health and safety, skills development, risk, remuneration, and performance management committees.

Candidate E suggested that an ethical committee should be established to deal with ethical dilemmas such as remuneration, incentives and bonuses of the board and executives, as well as to monitor, address and report on ethical dilemmas within organisations.

All participants felt strongly about the governance of rewards and remuneration of the board of organisations. All participants agreed that the HR manager’s role regarding reward and remuneration should be to develop, implement and monitor the remuneration policies and procedures as well as being part of the remuneration-related committees.

- Policies and procedures – recurred in five of the interviews.

Candidate A suggested that organisations should first of all create a framework which aligns all the organisational policies and procedures to legislation and the King III code.

Candidate B stated that the governance of ethics is addressed in the King code where the code states that in order for HR managers to manage and build an ethical culture, the organisation needs to develop or revise its code of ethics, policies and procedures. HR managers need to ensure that all the correct and fair policies and procedures are in
place and that they are aligned to relevant legislation. The process of policy and procedure writing needs to be transparent and fair.

Candidate C stated that HR management needs to ensure that the policies and procedures support ethical decisions and are correct within the legal framework.

Candidate D suggested that just like ordinary employees, individual directors, their board sub-committees and audit committees should also be subjected to the company’s policies, procedures, regular 360-degree performance assessment and reviews that are governed by HR departments.

Candidate E stated that HR management needs to develop and implement policies and procedures to govern Information Technology.

All participants agreed that HR managers should develop and implement policies and procedures to govern ethical behaviour. All participants suggested and recommended that all policies and procedures need to comply with all relevant legislation, be transparent and fair. They view it as the responsibility of HR management to ensure that this takes place.

- Performance management – recurred in all five of the interviews.

Candidate A stated that HR managers need to implement fair and transparent performance management frameworks that are applicable to everyone in the organisation and interpreted the same.

Candidate B explained that the King III code on the enterprise level directs performance and controls conformance. This candidate indicated that it is the responsibility of the HR department to design and implement performance management policies and procedures fairly across the whole organisation.

Candidate C stated that the HR practices of performance management play a key role in compliance to corporate governance principles.
Candidate D suggested that just like ordinary employees, the individual directors, their board sub-committees and audit committees should also be subjected to regular 360-degree performance assessment and reviews. This candidate also expressed his frustration with HR practitioners who turn a blind eye on incompetent managers and directors. Candidate D stated that HR governance is ‘the act of leading the HR function and managing related investments’ to optimise performance of the organisation’s human capital assets.

Candidate E stated that HR management should be responsible for governing the way people/organisations do things and the level at which they perform.

All five participants in this study believed that it is HR management’s responsibility to implement fair, transparent and ethical performance management within an organisation. The whole organisation needs to be subject to the performance management interventions of HR management, including the board and committees. Establishing a sound performance management system within an organisation is a crucial element of corporate governance.

- Risk and corporate governance – recurred in three of the interviews.

Candidate A believes that good corporate governance is essential for a company. Candidate B mentioned that within his organisation, the risk department is responsible for corporate governance. He continued to discuss the ethics of governance concerning the ethical responsibility of business to society, and the second aspect which is the governance of ethics concerned with directing and controlling the ethics of the organisation. Candidate C shared from his study of risk management that in some organisations where HR departments oversee governance, risk and compliance issues, these are so poorly managed that they become major business risks.

All three the participants agreed that corporate governance is important and affects the risk profile of an organisation. Two of the participants mentioned that governance is the responsibility of either finance or risk departments in their organisations. All three
the participants that mentioned risk or corporate governance felt that HR managers should create and implement an ethical code, policies and procedures that would address legislation as well as the King III code requirements.

- Recruitment and selection – recurred in three of the interviews.

Candidate A stated that HR practitioners need to recruit employees who show integrity and values and who are aligned with their organisation. Candidate B suggested that because the HR department is responsible for job descriptions/profiles as well as recruitment, it needs to do this in a professional manner to ensure that the company appoints the right people with the right skills, competencies and values. HR management needs to ensure that all the correct and fair policies and procedures for recruitment are in place and that the policies are aligned with all legislation. The process needs to be transparent and fair. HR practitioners also need to ensure that salary benchmarking has been done on the job profile and a clear guide of the grade should be in place. Therefore, the offer made to the applicable candidate is fair and the organisation does not discriminate against any positions or people. Candidate C stated that the traditional HR practices of recruitment and selection, training and development, performance management, and remuneration play a key role in the development and maintenance corporate governance principles. In order to help business leaders address issues such as governance, risk and compliance in organisations, the HR function must use their unique knowledge, skills and experience. Candidate C stated that HR practitioners should proactive appoint the right staff with the right skills, values and ethics.

Though three participants mentioned the HR department’s role in recruitment and selection as good corporate governance, they emphasised different aspects. Two mentioned the HR department’s responsibility to recruit the right people who will be likely to be ethical; one participant emphasised that HR departments should ensure that the recruitment and selection processes should be fair and transparent and one said that HR management should use its competence to ensure that boards take ethical decisions.
• Training, learning and development – recurred in three of the interviews. Candidate A expressed his concern with companies that submit their skills development reports by fabricating the data. Candidate C explained that the traditional practices of the HR field included training and development, with a key role to play in the development and maintenance of sound corporate governance practices. He stated that it is the HR department’s responsibility to oversee the process of identifying and developing high potential employees from within the company. HR practitioners need to improve their competence and knowledge in order to understand the board and its approach to governing the company. Candidate D shared his frustration with HR practitioners and managers who turn a blind eye to incompetent managers and directors.

Two of the three candidates that mentioned training and development expressed their concern with the competence and skill level of the HR representatives that are responsible for skills development within organisations. The third candidate mentioned that some HR representatives that are responsible for skills development fabricate data for skills development submissions. All three candidates referred to the HR representatives that are responsible for skills development in general and not in their specific companies.

• Employment equity – recurred twice in the interviews.

Candidate A expressed his concern about companies that fabricate data for equity plans and then submit the data to the Department of Labour. Candidate B shared from his experience that some HR managers do not understand the requirements of an equity report and then insert fabricated figures on the report, before submitting the report to the Department of Labour.

Both candidates that mentioned employment equity in the interviews, felt that HR managers and HR members that are responsible for employment equity reporting do not understand the equity information required and then submit wrong figures or
unethically manipulate figures. Both were referring to their perceptions of HR managers in general, and not to their companies specifically.

- Information technology (IT) – recurred in two of the interviews.

Candidate C suggested that HR practitioners should collaborate with line management and boards of directors to establish and enforce IT and electronic communication policies and to mitigate any IT risks. Candidate E was concerned about new technology and HR management’s role in governing information technology. Social networks like Facebook, Linkedin and Twitter pose a new threat to the ethical culture and brand of an organisation, as employees can submit information at any time even during work hours. HR management also has a role in creating policies and procedures to govern IT.

Both interviewees that mentioned information technology felt that HR management should ensure that policies and procedures exist that would address the governance of information technology.

- Reporting and compliance – recurred in two of the interviews.

Candidate B stated that organisations need to report and disclose all practices as well as unethical behaviour; also assessing the organisations’ ethical risks and opportunities. Candidate C mentioned that the King III code is not legislative and compliance is best practice, and companies listed on the JSE are expected to comply, as compliance is important for governance. The HR director should present company directors with a complete report of HR compliance, operational risks, and recommended actions, and accept responsibility for mitigation thereof.

Both the participants that mentioned reporting and compliance in the interviews stated that organisations need to disclose and report on all practices, including HR matters. One of the participants recommended that the HR director should present the board
with a complete report on HR compliance, operational risks and recommendations on actions to mitigate risks.

From the interviews it was apparent that senior HR managers that partook in this study know about the King III report, but do not know the content or fully understand the full King III code and its implications for them as senior HR managers. There was agreement in the interviews that HR management has a definite responsibility within corporate governance and to create an ethical relationship of responsibility between the company and the society in which it operates. Participants clearly indicated that they did not have models or decision-making frameworks to assist them in making ethically sound decisions.

Discussion and conclusion

The following problem statement was focused on in this study: Good corporate governance is a very rare competence in companies, the lack of which results in fraud and unethical behaviour by management and employees. The HR department is at the heart of an organisation and therefore has the responsibility to manage good corporate governance from a people perspective by using the King III code as guideline. HR management has the responsibility to manage good corporate governance from a people perspective. HR management needs to be established as the custodian of the King III code. This means HR management has to be competent in using and implementing the King III code, as well as to establish an ethical culture that will ensure that the organisation is a responsible corporate citizen.

From the interviews it was apparent that HR management does not know or understand the full King III code and its implications. There was agreement in the interviews that HR management has a definite responsibility within corporate governance, also to create an ethical relationship of responsibility between the company and the society in which it operates.

The researcher analysed all the interviews and identified the reoccurring themes. The researcher presented the data to the external party to analyse and identify the themes. After
analysis of the semi-structured interviews, the frequency of recurring themes was established. The following recurring themes were identified:

- **Culture**

  ICAC publications ethics (1998, p.2) has found that: the ethical tone of an organisation impacts upon:
  - efficiency and effectiveness;
  - decision-making processes;
  - staff commitment and job satisfaction;
  - staff stress; and
  - staff turnover.

  “Making ethical practices a priority is not just about functioning with integrity or being seen to be functioning with integrity. Nor is it just about being credible and competitive. It is also about optimising the efficient functioning of the organisation. Organisations are, therefore, urged to make improving their ethical cultures a priority because focusing on ethics is a fundamental aspect of good management practices” (ICAC publications ethics, 1998, p.2). All the participants in the interviews agreed that an ethical culture within an organisation is very important.

  The Ethics Resource Centre (2009) stated that in the workplace leaders exert power and influence behaviour by controlling who is hired, retained, fired, or promoted. Employees choose to whom they want to listen; whom they admire; whether they ask questions of their supervisors’ conduct and whether they publicly acknowledge the rules, but privately do whatever secures the outcome they want. As a result, employees learn what really matters. This is the essence of ethical culture (Ethical Resource Centre, 2009). One of the participants in the interviews supported the statement, adding that HR practitioners should act ethically and become role models to the rest of the organisation.
The Ethical Resource Centre (2009, p. 6) indicated that: “In a ‘strong’ ethical culture, ethical values matter and are apparent in the actions of employees (especially management), company policy and procedures, and decisions about who gets rewarded, who gets punished, and how to weather tough times”. “In a ‘weak’ ethical culture, ethical values are not promoted and “getting the job done” is far more important than getting the job done in the ethically right way” (The Ethical Resource Centre, 2009, p. 16). Basically, the strength of a company’s ethical culture is the extent to which the organisation prioritises doing the right things. All participants in this study agreed that it is HR management’s responsibility to develop, implement and monitor the organisation’s code of ethics, policies and procedures. HR management also needs to create an ethical culture throughout the organisation, from top to bottom. Two participants acknowledged the King III code and the guidelines that the code provides for governing the ethical culture of an organisation. The board should also be accountable, adhering to the code of ethics, culture, policies and procedures.

- Reward and remuneration

Du Plessis, Fouché, and Van Wyk (2002) defined the employer’s responsibility towards remuneration as set out by the Basic Conditions of Employment Act. Meyer et al. (2011) stated that remuneration is multi-faceted. Remuneration provides the means to satisfy universal needs of all employees, namely safety, belonging, growth and self-esteem. Remuneration facilitates the attraction, retention, engagement and motivation of people. Remuneration fulfils a strategic role in helping the organisation meet its goals, both at present and in the future. Variable or incentive pay in particular is used to communicate corporate strategy, focus people on outcomes they are able to influence, and reinforce key behaviours which reflect the values of the organisation. Nobody could possibly doubt that engaged, valued and achievement-focused employees boost organisational performance - both directly and through their ability to inspire and motivate others. Remuneration makes an important contribution towards the achievement of the strategic goals of the organisation and it lies close to the heart of the employment relationship. Remuneration can potentially be contentious, being subject to the frequently conflicting viewpoints, beliefs and
interests of different groups of stakeholders. Stakeholders manifold complex demands arising from increasingly sophisticated knowledge work, globalisation and increased competition for talent, to name just a few.

Meyer et al. (2011) also emphasized the importance of the nature of remuneration management. The complexities of modern organisations and the potential for conflict, together with implicit reputational and other risks, demand a strong ethical framework for remuneration in every organisation. This framework must be based on the ethical culture of the organisation - its values, principles and extent of support for people doing “the right thing” - and supported by the following, which are the key stones of remuneration ethics:

- Transparency in the sense of communicating openly with employees about remuneration; inviting and listening to their feedback, ideas and concerns; discussing alternatives and constraints; and resolving differences by debate. Participants in this study strongly emphasised the role of HR management in ensuring that policies are in place to keep remuneration decisions transparent.

- Participation/involvement of employees in decision-making on remuneration policy, practices and decisions which affect them. Participants in this study stated that HR management should be responsible for salary benchmarking, based on job profiles, with a grade that was done with a subject matter expert (employee), manager and HR representative.

- Compliance with accepted best professional practice; the prescriptions of good governance (King III code); securities exchange and statutory requirements. Participants in this study suggested that HR management should form part of a remuneration committee as advised by the King III code. They also indicated that HR remuneration practices play a key role in adherence to corporate governance practices and principles.

- Fair and non-discriminatory policies and practices that seek to advance the common good rather than to advantage any particular employee group at the expense of the other. Participants in this study stated that HR management has
an important role in advising remuneration committees on fair and equitable remuneration of directors.

- Accountability of senior leadership and HR management for remuneration policies and the effective and well-managed implementation of remuneration processes and practices. Participants suggested that an ethics committee should be established to deal with ethical dilemmas such as remuneration, incentives and bonuses of the board and executives, as well as to monitor, address and report on ethical dilemmas within organisations.

Whether or not remuneration is managed ethically will always have to be judged by employees, the directors/members and any other stakeholders who are involved (Meyer et al., 2011). Many employees would take exception to such an assertion (bear in mind, for example, the selfless work done by many thousands of voluntary workers in all countries and across all cultures), and motivation theorists down the ages have held that people inherently want to be successful. The difficulty is that employees have varying ideas of what constitutes performance. The remuneration and performance management systems give direction and alignment, among other things.

There is a strong move towards equal pay for work of equal value – this is now accepted practice in Europe and it is to be expected that South Africa will follow suit, especially because it is an issue which the ILO is pursuing (Meyer et al., 2011). In addition, the disparity in income nationally in South Africa is an important issue in a country with one of the biggest divides between the ‘haves’ and the ‘have-nots’. Participants in this study believed that it is an HR management role to influence the inequality of distribution of pay and benefits. Finally, ethical behaviour should be pursued for its own sake and not for the sake of bottom line benefits that may be expected to accrue as a result of behaving in an ethical manner (Meyer et al., 2011).

All participants in this study that mentioned reward and remuneration felt strongly about the governance of rewards and remuneration of the board of directors within
organisations. All participants agreed that HR managers have a role within reward and remuneration by developing, implementing and monitoring the remuneration policies and procedures as well as being part of the remuneration committees.

- Policies and procedures

Ehlers and Lazenby (2004) defined policies as specific guidelines, methods, procedures, rules, forms and administrative practices that direct the thinking, decisions and actions of managers and employees in strategy implementations (Grobler, Wärnich, Carrell, Elbert, & Hatfield, 2006). Policies therefore provide a basis for control, and promote coordination and consistency across organisational units. The policies at an organisation play a significant role in the execution of an organisation’s business strategy, and it is vital that the policies are formulated in such a manner as to support these business strategies (Ehlers & Lazenby, 2004).

Ehlers and Lazenby (2004) stated that policies and procedures are developed to provide individuals with the freedom to make decisions in the execution of their duties within defined boundaries, and in the process avoid over-controlling by the managers. The purpose of policies and procedures is to clarify expectations and provide justification for the unique way in which work is conducted at an organisation. Therefore, policies are in essence a common language created by the organisation to minimize misunderstandings, keep people informed and improve the efficiency and effectiveness of operations (Grobler et al., 2006).

High quality policies and procedures help managers to regulate events proactively and assist the organisation with the prevention of costly legal proceedings. Doing so also allows management to guide operations without constantly intervening, which contributes towards the empowerment of the workforce. When considering the traditional managerial functions of planning, organising, leading and controlling, the use and development of policies can be viewed as a combination of the planning and controlling functions. In terms of combining the planning and controlling functions,
the nature of policies and their close link to strategic management as well as their intention to guide decision-making and behaviour at an organisational level, places the concept of policy firmly within the management field (Ehlers & Lazenby, 2004).

From the employee’s perspective, well-written policies and procedures allow them to better understand their roles and responsibilities at the organisation. Furthermore, it guides employee behaviour by providing principles and rules to perform their job requirements and resolve frequently occurring problems (Ehlers & Lazenby, 2004).

All participants in the interviews that mentioned policies and procedures agreed that HR managers should develop and implement policies and procedures within the organisation. All participants suggested and recommended that all policies and procedures need to comply with all relevant legislation, being transparent and fair.

- Performance management

Meyer et al. (2011) indicate that performance management is a systematic data based approach to managing human behaviour in the workplace. There are various tools which are used to measure and manage performance, and processes differ between organisations. However, the basic principles and process results in targets being set and each individual’s performance are measured against achievement of the target.

Positive individual behaviour is reinforced and any undesired behaviours corrected by removing obstacles to performance; thus positively changing behaviour. The main objective of performance management is to align individual performance to business strategies in order to achieve the organisation’s goals; and performance management often provides a basis for rewarding people in relation to their contribution towards business success and assists with employee development. Levy, Kelly, and Levy (2010) stated that another challenge for ethics in performance management is the managing of poor work performance. All five participants interviewed believed that it
is HR management’s responsibility to implement fair, transparent and ethical performance management within an organisation. The whole organisation needs to be subjected to the performance management interventions of HR management, including the board and committees. Establishing an effective performance management system within an organisation is a crucial element of corporate governance.

According to Meyer et al. (2010), the board of directors and chief executive officers form part of an organisation’s human resources. Just like ordinary employees, individual directors, their board sub-committees and audit committees should also be subjected to 360-degree performance assessments and reviews.

- Risk and corporate governance

Meyer et al. (2010, p. 12) stated that:

The recipients of HR services, that is line management, are not *ad idem* with HR management on the importance and the effectiveness of HR departments’ services. For instance, sometimes management regards training as a waste of time. This perception is a major source of HR management’s credibility crisis and the question arises as to what is the HR department’s contribution towards business success? In order for HR management to meet this challenge, it needs, amongst other things, to effectively identify and manage the organisation’s risks. Participants in this study shared that in some organisations where HR
departments oversee governance, risk or compliance issues, these are so poorly managed that they become major business risks.

Meyer et al. (2010) stated that HR management should gather information regarding people related governance, risk and compliance issues. The HR director should present company directors with a complete report of the HR departments’ compliance and operational risks, recommend actions, and accept responsibility for mitigation thereof. Furthermore, HR management can assist the board with HR functions such as succession management, leadership development, administrative services, as well as being represented in the remuneration committee (Deloitte, 2008).

According to Meyer et al. (2010), although human capital risks are mentioned in the King III code, this aspect deserves more prominence. As the Deloitte (2008, p. 11) report asserted: “People and behaviour are often the biggest source of business risk.” Hence, it is critical to ensure that people risks are included in a company’s risk management plan. “A comprehensive people risk analysis is needed, one that significantly transcends the current narrow focus on safety in high-risk environments such as factories and mines” (Meyer et al., 2010, p. 12). Participants in this study also believe that corporate governance is very important and when done correctly and by all stakeholders, it can reduce the organisation’s risk profile.

Meyer et al. (2010, p.10) identified the following “people risks namely: company culture, talent shortages and retention, incompetence, employee performance, unethical behaviour, low morale, grievances and disputes, excessive absenteeism, employee wellness, sabotage, workplace violence, and non-compliance to industry and other regulations and laws”. In this study, most of these were also mentioned by participants.
Deloitte (2008, p. 11) states that “governance, risk and compliance challenges affect every part of the business – and every one of those challenges has a significant human component”. It is required of the HR function to competently assist business leaders to address corporate governance, risk and compliance issues of the entire organisation. One of the participants in this study stated that ethics of governance is addressed in the King III code where the code states that the board should ensure that the company is seen to be a responsible corporate citizen. The governance of ethics is also addressed in the code where the code states that the board should ensure that the company’s ethics is managed effectively. This is where HR comes in, namely to manage and build an ethical culture the organisation needs to develop or revise its code of ethics, policies and procedures. The organisation also needs to integrate ethical standards in its day to day practices. Organisations need to report and disclose all practices as well as unethical behaviour; and also assess the organisations’ ethical risks and opportunities.

- Recruitment and selection

Participants in this study believed that HR departments are responsible for recruiting people who are ethical. Meyer et al. (2011) stated that identifying the recruitment potential of employees represents one of the most significant human resource activities a manager may undertake. To attract those people who are deemed best-fit both in terms of job requirements and organisational culture, the HR professional should ensure that there is a sound recruitment policy in place which sets out the highest ethical and professional standards to be applied to this important function.

Recruitment opens a window to the organisation, is an important branding opportunity, and gives rise to legally recognised and enforceable contractual relationships necessary to safeguard the organisation against possible allegations of discrimination and/or unfair labour practice. At the same time, it ensures that the terms and conditions of recruitment comply with an organisation’s policy and the relevant employment legislation (Meyer et al., 2011). Participants in this study supported this view and emphasised the role of HR departments in ensuring that recruitment processes are fair and transparent.
Participants in this study also believed that senior HR managers should use their skills and competencies to ensure that boards make ethical decisions regarding recruitment and selection, and in this include succession planning as part of the staffing process. Succession planning features prominently in the King III code. HR departments assist in the process of matching the suitable candidates in critical leadership positions, based on proper job profiles and specific competencies identified through a rigorous competency analysis process. As part of the selection panel, HR practitioners can help evaluate internal and external candidates and advise the selection committee on the recruitment and selection process, as well as remuneration. HR practitioners should also oversee the process of identifying and developing potential from within, as part of the recruitment process.

- Training, learning and development

Meyer et al. (2011) stated that the term ‘learning’ is often used to describe the development of the individual in an organisation. Often training is seen as something that an organisation imposes upon employees and it may be viewed as an irritation; perhaps even a burden by the employee. Learning on the other hand is often something that a person would do in his/her own time (Felstead, Fuller, Unwin, Ashton, Butler, & Lee, 2005).

Felstead et al. (2005) suggest that when learning, people tend to enhance their own development and this usually results in personal growth. In the workplace, personal growth tends to build and strengthen the relationship between work and individual interests. Most organisations are profit-driven and a significant return on investment can be obtained by managing and developing employees, which should result in enhanced performance, career progress and employee retention. Felstedad et al., (2005, P. 359) stated that:

Qualifications and training provide a partial account of skill acquisition since learning is not something that necessarily requires time out from productive
activity, but arises naturally from the demands and challenges of the everyday work experience.

Candidates that participated in the study expressed their concern with the competence and skill level of HR practitioners that are responsible for skills development within organisations. HR practitioners may overlook the development of specific skills of board members due to the lack of understanding of skills needed. It is critical for HR practitioners responsible for skills management to be knowledgeable and competent, as competent board members are crucial for effective corporate governance. One candidate mentioned that some HR representatives that are responsible for skills development fabricate data for skills report submission. Participants agreed that HR managers have a responsibility regarding the training and development of employees, and board members in particular, but felt that they lacked the skill at present to properly perform this function.

- Employment equity

Meyer et al. (2011) explain that: “in terms of the Employment Equity Act No 55 of 1998, employment equity is concerned with two aspects of employment law, namely the prohibition of unfair discrimination in the workplace and the duty of designated employers to implement affirmative action programmes. The Act also requires all employers to take steps to promote equal opportunity in the workplace and to prohibit unfair discrimination in all employment policies and practices. In addition, designated employers are obliged to adopt and implement affirmative action measures for people from designated groups”.

Meyer et al. (2011) found that some organisations use skills development to manipulate and inflate their Broad Based Black Economic Empowerment (BBBEE) scorecard; for example the number of black employees that has undergone irrelevant
and non-value adding training only for the sake of showing that they have trained a certain percentage of black people and can claim points on its BBBEE scorecard. Participants in this study also believed that HR managers and HR members that work with employment equity do not understand equity and then submit wrong figures that are not based on the correct criteria or unethically manipulate figures. The fact that none of the participants mentioned the other critical aspects of ethical Employment Equity could indicate that they do not see themselves playing a role in ensuring these.

- Information technology

Meyer et al. (2011) indicate that most organisations today store the majority of their information using computer technology. Depending on size and sophistication, this can range from e-mail on a single computer in a small organisation to large scale technology systems covering all aspects of the business. In many organisations the use of technology is governed by an ‘Acceptable Usage Policy’ which guides employees in what is acceptable and what is unacceptable. Some aspects that such policies usually cover are use of e-mail, internet, storing of information and notification of levels of monitoring. This then determines how much privacy an employee has. In South Africa there is legislation that can assist in determining if the organisation is behaving ethically in terms of information technology. Moreover, the next decade is expected to be dominated by cybercrime and other unethical practices relating to internet fraud, and the abuse of social media and other forms of information technology.

Meyer (2009) and Meyer et al. (2011) agreed that there are a number of important codes, guidelines and regulations that can aid in ensuring ethical behaviour when utilising IT in the HR environment. The following legislation is available:

- Regulation of Interception of Communication and Provision of Communication – Related; and

- Information Act No. 70 of 2002 (RICPCA).
Meyer (2009) indicated that in the Electronic Communications and Transactions Act 25 of 2002, employees must be educated in the organisation’s IT and systems policy and they must understand and adhere to the policy. Depending on how the policy is monitored and who is responsible for supervising it, the people accountable must be aware of their responsibilities. Legislation governs how much privacy an employee has in the workplace. However, the organisation’s policy can set levels of complete, partial or no privacy and, accordingly, will review employee data. Employees must have a clear understanding of the various legal issues involved when using an organisation’s information technology system (Meyer et al., 2011). In this study it was found that HR management is not fully aware of its role in corporate governance regarding IT, although a whole chapter was dedicated to IT governance in the King III code. HR management is responsible for ensuring that all policies and procedures are in place to support corporate governance of IT.

Both interviewees in this study that mentioned information technology felt that HR management should ensure that policies and procedures exist that would address the governance of information technology. Information systems have now become part of the strategy of the business. Organisations use information technology to communicate to markets and update customers as well as employees on products, services, news and happenings of the business. The pervasiveness of information technology in business today mandates the governance thereof as a corporate imperative. In exercising their duty of care, directors should ensure that prudent and reasonable steps have been taken with regard to information technology governance.

- Reporting and compliance

“The market capitalisation of any company listed on the JSE equals its economic value and not its book value” (Institute of Directors, 2009, p. 12). “The financial report of a company, as seen in its balance sheet and profit and loss statement, can be compared to a photograph of a moment in time of its financial position” (Institute of Directors, 2009, p. 12). Before purchase, a trader will determine the economic value of a company on the stock exchange. The purchaser considers the following when
determining the value of the company: future earnings, brand promise, charity, status of the company’s board and management, company reputation, strategy and other sustainability aspects. Investors will analyse a company’s risk management and sustainability issues relating to its business (Institute of Directors, 2009).

Employees as consumers and citizens of the community are concerned about our environment and planet. The King III code dedicated a whole chapter to integrated reporting and disclosures. “One of the essential principles of the King III code is the view that governance, strategy and sustainability are inseparable” (Price Waterhouse Coopers, 2009, p. 64). Stakeholders want to be assured of the quality of the projected data. Integrated reporting ensures an increase in confidence as well as trust from all stakeholders in the legitimacy of the business operations. This will result in optimising business opportunities and improved risk management. “By issuing an integrated report internally, a company evaluates its ethics, fundamental values and governance, and externally improves the trust and confidence which stakeholders have” (Institute of Directors, 2009, p. 12).

Price Waterhouse Coopers (2009, p. 3) stated: “the need for an annual integrated report that focuses on the impact of the organisation on the economic, environmental and social spheres”. The Institute of Directors (2009, p. 12) suggests that: “organisations have therefore recommended integrated sustainability performance and integrated reporting to enable stakeholders to make a more informed assessment of the economic value of a company. The integrated report should have sufficient information to record how the company has both positively and negatively impacted on the economic life of the community in which it operated during the year under review, often categorised as environmental-, social- and governance issues (ESG)”.

Both the participants that mentioned reporting and compliance in the interviews stated that organisations need to disclose and report on all practices relating to corporate governance, including HR matters. One of the participants recommended that the HR director should present the board with a complete report on HR compliance,
operational risks and recommendations on actions to mitigate risks. By issuing integrated reports as prescribed and advised by the King III code, a company increases the trust and confidence of its stakeholders and the legitimacy of its operations.

The findings of this study indicated that HR management does not have in-depth knowledge and understanding of the King III code, but they do know about the King III code. HR management does not use the King III code and feels that corporate governance is the responsibility of all senior employees in the organisation as well as the relevant departments. HR management feels that HR audits should be done internally and externally to ensure ethical practices. The HR department plays a critical role in establishing ethical cultures within organisations. HR management as well as the board of directors of the organisation should establish an ethical code of conduct, identifying and executing the organisation’s ethics strategy. There is a need to professionalise HR as HR departments are still seen as largely an administrative function and do not have the authority or credibility on board level. HR representatives and management need a checklist to follow in establishing an ethical culture based on the guidelines of the King III code.

The researcher recommends that HR practitioners as well as HR management need to be trained more intensely on ethics, corporate governance and the HR function’s role within corporate governance. Professional bodies should support HR practitioners in providing guidance and developmental interventions. With the first and second King reports, HR management had a very limited understanding and knowledge of the codes. In the King III code the focus was more on effective leadership, sustainability and corporate citizenship which involve HR management. HR management knew about the code, but was not sure how the code affected its HR function. The researcher further recommends that HR professional bodies should set HR standards in terms of ethics and corporate governance. The HR professional bodies should ensure that the qualifications and training of South Africa are more focused on developing and preparing HR practitioners in becoming an HR strategic partner within organisations. With the development of the King IV code, the impact on the HR function is expected to be even greater with more responsibility on the management of HR.
REFERENCES


Chapter 3 - Conclusions, limitations and recommendations.

This study’s objective was to identify the position of HR management as custodians of the King III code, in order to determine HR management’s knowledge and understanding of the King III code; and to identify the role of HR management in corporate governance. The purpose of this study was to contribute to effectiveness and efficiency of operations, create awareness of HR management’s compliance role with regard to regulations, to support business sustainability and to contribute towards reliable reporting and responsible behaviour towards all stakeholders.

A phenomenological research design was utilised throughout the qualitative research process. Creswell (1998) stated that this research design aims to define the meaning of experiences of a phenomenon, topic or concept for individuals. He also stated that this research design aims to reduce these experiences to a central meaning. De Vos, Strydom, Fouché, and Delport (2011) indicated that this research design differs from other research designs by aiming to derive the meaning and essence of experiences, instead of measurements and explanations thereof. Creswell (1998) stated that the phenomenological design aims to obtain and describe experiences through first person accounts in informal conversations and during interviews, for the purpose of understanding human behaviour. This research design was found most applicable due to the small number of participants in this research study as well as the aim to develop patterns and relationships of meaning.

This study can be defined as descriptive and explorative. Descriptive research presents a picture of the specific details of a situation, social setting or relationship and focuses on how and why questions. Exploratory research is a method of gaining insight into a situation, phenomenon, community or individual of which the utilisation should arise as a result of limited information within a new area of interest (De Vos et al., 2005). The objective of this approach is to gain insight into HR management as custodians of the King III code, its understanding of the King III code, and its role in corporate governance.
The following areas address the conclusions of this study based on the research questions and findings:

- Do members of the HR department know and understand the King III code?
- Does HR management use the King III code?
- What role does the HR department play in an organisation’s corporate governance?
- How does HR management apply the King III code in an organisation?
- What guideline does HR management use to make ethical decisions?

The conclusion section is followed by the following headings: acknowledged limitations of the research study, the researcher’s recommendations, with a summary on the researcher’s experiences whilst conducting the research study.

Conclusions

The researcher went into the field with a framework of what will be studied (without hypotheses). Thus, early in the study the researcher specified the philosophical grounds that would guide the study. According to De Vos et al. (2011), the final result of the phenomenological study is a general description of the phenomenon, as seen through the eyes of people who have experienced it first-hand. As such, the findings need to relate to an existing body of theory and research.

Purposive sampling was used to select HR managers, HR executives and HR directors from various industries. The researcher found that it was difficult to get candidates from the top level within the organisation that were willing to participate in the study, due to the sensitivity of the research topic. The researcher managed to identify participants that represent HR management in the majority of industries, have the experience of HR functions on all levels within organisations, and who were willing to participate (Berg, 2007).

The researcher employed semi-structured interviews. Berg (2007) stated that when interviews are organised around the areas of particular interest they will allow flexibility in scope and depth. The aim of the interviews was neither to get answers to particular questions
nor to test hypotheses, but an interest in understanding the experience of participants and the meaning they make of that experience (De Vos et al., 201; Berg; 2007).

The researcher started the field study with an initial interview with the five candidates to test the interview design. The researcher gained more confidence with the practical aspects of establishing access, making contact, and conducting the interview, as well as becoming alert to his own level of interviewing skills. After the five interviews, the researcher revised the questions and analysed the data. To clarify some of the data, the researcher interviewed the five candidates for a second time.

As with King I and King II, the King Committee endeavoured to be at the forefront of governance internationally. Price Waterhouse Coopers (2009, p.2) found that the King committee has again been at the forefront of governance “by focusing on the importance of reporting annually on how a company has both positively and negatively affected the economic life of the community in which it operated during the year under review.”

The first chapter of the King III code deals with ethical leadership and corporate citizenship. Price Waterhouse Coopers (2009, p.5) indicated that: “the King III code states that companies need to be responsible corporate citizens. That implies an ethical relationship of responsibility between a company and the society in which it operates”. Price Waterhouse Coopers (2009, p. 64) stated that: “companies, apart from rights, also have legal and moral obligations in respect of their economic-, social- and natural environments”. Institute of Directors (2009) suggests that companies should protect and invest in the well-being of the economy, society and the natural environment.

Meyer (2009) stated that corporate governance results from effective leadership. Leaders are required to provide strategy, direction and need to establish the ethical code of conduct as well as the identification of the organisational values that will influence and guide practices and behaviour with regard to sustainable performance. Good corporate governance is a very rare competence in companies. The HR department is the heart of an organisation as HR
representatives create organisations’ culture, and identify and implement the legislative practices, policies and procedures of the organisation (Meyer, 2009). Meyer (2009) also states that HR recruitment representatives are responsible for selecting and recruiting the organisation’s workforce, developing and supporting the employees throughout their life cycle in the organisation.

The following findings and conclusions are drawn from this research.

Do HR departments know and understand the King III code?
The results indicated that HR management does not have in-depth knowledge of the King III code, but it does have a basic understanding. HR management feels that the King III code affects everyone, but the responsibility of governing the principles lies with the finance department.

Does HR management use the King III code?
The results indicated that HR management does not use the King III code and feels that corporate governance is the responsibility of all senior employees in the organisation as well as the relevant departments. HR management feels that HR audits should be done internally and externally to ensure ethical practices. The HR department plays a critical role in establishing ethical cultures within organisations. HR management as well as the board of directors of the organisation should establish an ethical code of conduct, identifying and executing the organisation’s ethics strategy. There is a need amongst all HR representatives to professionalise HR, as HR departments are still seen as mainly an administrative function and do not have authority or credibility on board level. HR representatives and management need a checklist to follow in establishing an ethical culture or a guideline like the King III code.

What role does the HR department play in an organisation’s corporate governance?
The King III code supports and links to good corporate governance through being driven by principles of fairness, accountability, responsibility and transparency. By creating awareness of HR management’s role in corporate governance, this study should contribute to good
corporate governance through enhancing the organisation’s reputation and image by adhering to all criteria of corporate governance; ensure investors’ confidence, unlocking human potential and establishing trust within and outside the organisation. This means that HR management is seen as the governor of sustained performance and compliance within the company. HR management needs to ensure that companies perform optimally, while still complying with legislation and ensuring best practice. HR managers as leaders also require a capacity for dealing with ethical dilemmas in order to lead ethically (Meyer, 2009). HR management is responsible for creating the environment, culture and the ways things are done within organisations (Meyer et al., 2011). The HR department is responsible for recruiting and selecting the right employees in the right positions (Meyer, 2009; Meyer et al., 2011). These employees need to fit into the organisation’s culture to ensure sustainable performance and compliance of individuals and departments (Meyer et al., 2011). Gilbert (2007) suggests that to establish an ethical culture within organisations, HR management needs to be role models. To be a role model, there needs to be an established set of ethical values agreed upon by top management and the board of directors. Many organisations still perceive the role of the HR department as a supporting or administration department and not a strategic business partner or governor of performance and compliance (Kuper, 2006).

How does HR management apply the King III code in an organisation?
Le Roux (2010) indicated that a number of recommendations have been superseded by legislation due to the process of social and political transformation since the introduction of the first King Report in South Africa. Some of these include, amongst others, the Labour Relations Act, Basic Conditions of Employment Act and Employment Equity Act. These changes, together with various national and international corporate scandals, have led to the further development of corporate governance codes (Le Roux, 2010).

The King III code cannot instil a culture of ethics within an organisation, this is the role of management, and in particular HR management; the King III code is a tool to assist HR management. The HR function plays a critical role in establishing an ethical culture that will be able to deal with ethical challenges within organisations (Meyer, 2009). The King III code mentioned five moral duties, namely: conscience, inclusivity (with reference to stakeholders), competence, commitment and courage which directors should adhere to (Institute of Directors, 2009; Meyer, 2009). Director’s obligations and responsibilities include these
moral duties. The King III code emphasises the importance of a company being a responsible corporate citizen with both a social and moral standing in society (Institute of Directors, 2009; Meyer, 2009). Being a responsible corporate citizen implies that the company’s board is responsible for the company’s triple bottom line which refers to economic, social and environmental performance. Institute of Directors (2009) suggests that companies should protect and invest in the well-being of the economy, society and the natural environment. Meyer (2009) indicates that the King III code can be a valuable tool for HR management. The King III code can guide HR management as strategic business partners, ethical leaders, and assist with managing an ethical culture. HR management also needs to be aware that the King III code can be used as a guideline that will ensure good corporate governance, creating an ethical culture within the organisation.

What guideline does HR management use to make ethical decisions?
All interviewees said that it was very difficult to make ethical decisions and they would like guidance on how to make ethical decisions. The researcher proposed Collins and McLaughlin’s (1996) ethical decision-making model as an example of an ethical decision-making instrument that can be used by HR management. Collins and McLaughlin (1996) stated that HR management has a dual responsibility:

- to act morally and according to ethical standards; and
- to create a culture and climate conducive to ethical behaviour – so that employees act ethically too.

In business, especially with the focus on corporate governance and the principle of triple bottom line measures and sustainable development charters, an approach of ethical judgement based on virtues is usually most applicable (Collins & McLaughlin, 1996). Such models can assist HR managers in making ethical decisions, and training should be provided on the use of ethical decision-making models.

**Ethical consideration**
De Vos et al. (2011) state that research should be based on mutual trust, acceptance, cooperation, promises and well-accepted conventions and expectations between all parties
involved in a research project. On this basis, relatively few limitations and many options for action are available which offer the best opportunities for answering research questions and contributing to society.

Human beings are the object of this study which brings unique ethical challenges to the fore. For researchers the ethical challenges are pervasive and complex, since data should never be obtained at the expense of human beings. The rule of this research was to do no harm to participants; harm can be in a physical or emotional manner. The researcher protected the participants within all possible, reasonable limits from any physical discomfort that might have emerged from the specific research. The researcher informed the respondents before the interview on what the interview was about, the length of the interview as well as what would be done with the information gathered during the interview. The respondents could have withdrawn at any time they wished. The respondents selected for the interviews were candidates that voluntarily accepted to be part of the study. All data was used to protect the participants and due to the sensitivity of the subject, the candidates remained anonymous in the study. The benefit for the respondent to partake in this study is that he will form part of a process to empower and professionalise HR representatives and to give HR representatives the credibility and power that they need to transform organisations and cultures into ethical organisations and ethical cultures.

**Trustworthiness**

To ensure the trustworthiness of the findings, Guba’s strategies for qualitative research were applied. Consideration of the strategies (Krefting, 1991), includes:

- **Credibility** – this includes checking the true value of findings, which were obtained by checking field notes, triangulation, peer examination and independent coding.
- **Transferability** – ensuring applicability of the findings; this will be obtained through comparison and description of adequate data.
- **Dependability** – consistency of the data which were ensured by conducting a audit, keeping unprocessed material, giving a clear and full description of the research method that will be used, the same process will be followed during triangulation, peer examination and code-recode procedure.
• Conformability – researcher applied the criterion of neutrality or keeping a distance in order not to influence the research, also using triangulation and code-decode procedure.

Limitations and Recommendations of this research

The researcher found that there were several limitations in the study. The topic of the research study was a sensitive topic and the researcher found that once a person was asked to participate in a study involving ethics in an HR department, he/she would decline. The reason for the sensitivity of the topic was not clear. For this reason the researcher suggests that a study be done on a larger population and that the current study can be used as a pilot study.

The researcher found it very challenging arranging a time and appropriate venue for interviews as the respondents’ offices were not ideal. The respondents did not feel comfortable to share information regarding ethics at the workplace. All respondents wanted to be anonymous and insisted that their names should not be mentioned anywhere in the study. The researcher initially wanted to focus on JSE listed companies, but was unable to get sufficient respondents. Only two participants worked in JSE listed companies, the others had worked in JSE listed companies in the past or were consulting to JSE listed companies. All respondents had experience in various sectors and levels of the HR field. The researcher suggests that a study should be done on JSE listed companies as they are required to adhere to the King III code as part of corporate governance.

The researcher also found that not all respondents were knowledgeable on the topic of the study; this resulted in situations where the researcher had to explain the concepts and topic to respondents. This also related to some interviews being shorter than others. The researcher proposes that HR managers working in JSE listed companies should be knowledgeable on the topic, and that would provide the researcher with more usable data.

The researcher did the study part-time as he is in full time employment as a consultant and needed to travel extensively. The result was that the study took longer than anticipated and respondents had to wait a long time for the findings and results of the study. The researcher
recommends that future studies be done on a full time basis, allowing more time in order to ensure the quality and quantity of the data as well as the credibility of the process followed.

The researcher has a great passion for developing people and organisations. The researcher indicated that HR management has a great responsibility within organisations; a fact of which it is unaware or in which it is not yet competent. HR representatives work with people who form the heart of any organisation and they create the culture as well as the values of an organisation. It is HR management’s duty to step up and ensure proper corporate governance, compliance, risk and ethical culture within organisations.
REFERENCES


APPENDIX A: INTERVIEWS

Interviews

The first question in the interview was: “Have you ever heard about or used the King III code?”

Candidate A answered as follows:

“I have heard about the King III code, but I have not researched the code as I was under the impression that the King III is a law that JSE listed companies have to adhere to. I have never used the code. After the overview of the chapters you gave me, I can understand that HR management has a role to play as all the chapters affect the HR department in some way.”

Candidate B answered as follows:

“I have read several articles about the King III code, but I have never used it. I do not feel competent enough to implement the code in our organisation as I do not understand all the implications of the code. I do feel that the code is very important and that corporate governance is essential. In our company the Risk department is responsible for corporate governance.”

Candidate C had a great passion and understanding of the King III code and answered as follows:

“The King III code became necessary because of amendments to the new Companies Act and changes in the norms of international corporate governance. The King III code follows the approach adopted by the Commonwealth and European Union countries, i.e. a code of principle and practices based on a comply or explain methodology. The King III code is not legislation, and that compliance is best practice, and companies listed on the JSE are expected to comply, as compliance is important for governance. Moreover the King III code states that any failure to meet a recognized standard of governance, albeit not legislated, may render a board or individual director liable at law. We are currently busy to create an ethical culture
within our board by using the King III code as guideline; we want to establish more ethical corporate citizens adhering to international best practices in all industries.”

Candidate D answered as follows:

“I have never encountered any of my clients using the King III code. I know about the King III code, although I have not read the code yet. I believe that HR in general can contribute more to ethical cultures within organisations as they have direct access to the people and create policies and procedures.”

Candidate E answered as follows:

“A few of my clients are implementing the King III code, but I have not encountered any client where the HR department is involved or responsible for the implementation of the King III code. I have not read the King III code, but I am aware of it.”

The researcher found that in three of the five interviews the interviewees had heard of the King III code, but had never read or used it. One candidate had read the King III code and was doing research on the King III code as part of a risk management study. One candidate was in the process of implementing the King III code in his organisation. All of the interviewees agreed that the chapters of the King III code affect HR and that HR has a role to play as governor of the King III code. From the interviews it was clear that the candidates had heard about the King III code, but most had not used it nor understood it. Risk and corporate governance were viewed as important by participants.

The second question was: “How would/do you apply the King III code in your organisation?”

Candidate A answered as follows:

“I am not using the King III code at all, but I do believe that good corporate governance is essential for a company. If I were to use the King III code, I would start by creating a
framework where all the organisational policies and procedures are aligned to legislation and the King III code. Then the framework should be audited to ensure that the organisation and the framework adhere to the King III code. This audit needs to happen on a regular basis. I would use external as well as internal auditors to conduct the audit to ensure objectivity and compliance. It happens too often that companies submit skills or equity plans by thumb-sucking the data; that is unethical and they need to be audited on those areas and report ethically on such matters.”

Candidate B answered as follows:

“We do not use the King III code in our organisation. Business ethics refers to ethical values that determine the interaction between a company and its stakeholders - that is what Mr King said in his report and what I believe. There are two levels of governance in a company that affect the ethical culture and practices. On the regulatory level (external level) there is the Company Act. On the enterprise level (internal level), there is the King III code - this is the system by which companies are directed and controlled. This system directs performance and controls conformance. Within this King III code’s direct and control leadership function, there are two major aspects. The first aspect is ethics of governance which is concerned with the ethical responsibility of business to society; and the second aspect is the governance of the ethics which is concerned with directing and controlling the ethics of the organisation. Ethics of governance is addressed in the King III code where the code states that the board should ensure that the company is seen to be a responsible corporate citizen. A responsible corporate citizen is defined in the code as an ethical relationship between the company and the society in which it operates. The governance of ethics is also addressed in the code where the code states that the board should ensure that the company’s ethics is managed effectively. This is where HR comes in, to manage and build an ethical culture the organisation needs to develop or revise their code of ethics and policies and procedures. The organisation also needs to integrate ethical standards in their day to day practices. Organisations need to report and disclose all practices as well as unethical behaviour; and also assess the organisations’ ethical risks and opportunities. As I previously said, I still need to do some research before implementing the code in our organisation, but currently our Risk department is responsible for corporate governance.”

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Candidate C answered as follows:

Candidate C shared from his study of risk management:” it was found in certain cases where HR-focused governance, risk and compliance issues are so widespread or poorly managed, that they become major business issues”. “The need for ethics in the application of HR practices such as organisational development and change management interventions can therefore not be over-emphasized”. “The King III code has devoted a whole chapter to the management of stakeholder relationships”. “Stakeholders are any group that can affect or be affected by the company and its reputation, for example shareholders, the media, and analysts, and several references are made to employees as key stakeholders”. “The report makes provision for constructive engagement with, and equitable treatment of stakeholders”. “HR management should gather information regarding people-related governance, risk and compliance issues”. “The HR director should present company directors with a complete report of HR operations compliance and operational risks, and recommended actions, and accept responsibility for mitigation thereof”. “Furthermore, candidate C also stated that HR can assist the board in related areas such as managing executive succession, to provide board development and administrative services, and supporting the remuneration committee. HR should also collaborate with management to establish and enforce IT and electronic communication policies and to mitigate any IT risks”.

Candidate D answered as follows:

“The board of directors and chief executives are by definition also human resources which should be optimally utilised to ensure organisational profitability and productivity. Just like ordinary employees, individual directors, their board sub-committees and audit committees should also be subjected to the company’s policies, procedures, regular 360-degree performance assessment and reviews that is governed by HR. Candidate D expressed her frustration of HR practitioners who have for too long turned a blind eye on incompetent managers and directors, people who simply do not attend board meetings and are, in most instances, free agents who operate above the scrutiny and reproach of company shareholders and other stakeholders. While the roles of the board and other key aspects of governance, such as the audit committee and internal audit are critical, the ultimate success of governance depends on how well governance is embedded in organisations as “simply the way we do business”. This means that accountability is devolved to all levels in the company.
Trustworthiness and integrity cannot be expected from employees if the “tone at the top” demonstrates otherwise. The mere presence of independent directors on a company’s board does not provide a sufficient governance safeguard. A company may have a perfect ethics code, but if a supplier makes an unethical decision at supply chain level, all good governance intentions have failed. Therefore, governance is about people and their behaviour, right from the top to all levels of the company. We have an ethical code of conduct that an employee signs when he joins the organisation; this ethical code of conduct is framed and sits on the employee’s table to remind him.”

Candidate E answered as follows:

“Part of the strategy of creating an ethical culture within an organisation should be an induction program where the new employees can experience the ethical culture and where top management talks about the culture to the employee. There should be a no-tolerance approach to unethical behaviour. An ethical committee should be established to deal with ethical dilemmas such as remuneration, incentives and bonuses of the board and executives, as well as to monitor, address and report on ethical dilemmas within organisations. A whistle blowing system should be put in place which employees can use to inform the committee of ethical dilemmas. Employees using the whistle blowing system need to feel safe and it should be anonymous. Once organisations are using the King III code, the reports and environment of the organisation would be more transparent. A more transparent environment will lead to more trusting relationships between the employee and employer as well as between departments, between the organisation and clients and relationship with suppliers.”

All interviewees agreed that ethics and ethical culture need to be initiated and championed by senior management. All interviewees agreed that the King III code is relevant in all stages of the lifecycle of an employee, starting from recruitment up to terminations. To establish an ethical culture within an organisation, it is crucial that HR recruit the correct employee that will fit into the organisation’s culture. The organisation’s policies and procedure should create a framework for ethical practices to support the organisation’s culture. Recruitment and selection policy and procedures need to be ethical, fair and transparent. Before recruitment can begin, there need to be clear job profiles that must set out the scope and
nature of the job, the minimum requirements in terms of qualifications, skills, experience and performance criteria before and advertisement is sent out. All practices in the organisation should be guided and aligned to international best practices as presented by the King III code; practices that include learning and development, performance and succession management, employment equity, Information Technology, employee relations, reward and remuneration, policies and procedures as well as skills submissions.

The third question was: “What part does HR play within corporate governance?”

Candidate A answered as follows:

“Corporate governance is regulated through our finance department and it is working well. I do understand that HR can help by ensuring that the correct policies and procedures are in place and also to ensure that all HR personnel act ethically and become role models to the rest of the organisation as well as establishing an ethical culture throughout the organisation. HR also needs to recruit employees with integrity and values who are aligned with our organisation. HR needs to implement fair and transparent performance management frameworks that is applicable to everyone in the organisation and interpreted the same. HR has an important role in advising remuneration committees on fair and equitable remuneration for directors. HR should adopt a no tolerance approach to unethical behaviour like fraud, bribery, theft etc.”

Candidate B answered as follows:

“Corporate governance, in my opinion, is concerned with the agents of the owners of a company (directors and managers) that manage the company, manage it in such a way that it looks after the interests of the shareholders. HR is responsible for job descriptions/profiles as well as recruitment. HR needs to do proper job profiling, so that the company appoints the right skills, competencies and values. HR needs to ensure that all the correct and fair policies and procedures are in place and that they adhere to all legislation. The process needs to be transparent and fair. HR also needs to ensure that salary benchmarking has been done on the job profile and a clear guide of the grade should be in place. Therefore, the offer made to the applicable candidate is fair and the organisation does not discriminate against any positions or
people. The remuneration policy and procedure also need to be clearly defined and adhered to as well as the performance management policy and procedures. This will also aid the organisation in paying out fair salaries and bonuses; what is very important is that everything needs to be transparent and aligned with legislation. If all of this has been done properly, the model will work for all levels within the organisation as well as for directors. Reporting also needs to adopt the values of ethics by being transparent, independent, responsible and fair, but mostly a true reflection of the company. How many times have I encountered HR managers that do not know or understand how to report on equity or skills and then just make figures and plans up and then submit those reports to executive management or their relevant SETAs and Department of Labour”.

Candidate C answered as follows:

“The corporate social responsibility of an organisation involves employees. HR is about employees, especially where HR practices are associated with diversity, employment equity, job security, remuneration, occupational health and safety, employment relations, and work-life balance. Furthermore, the traditional HR practices of recruitment and selection, training and development, performance management, and remuneration plays a key role in the development of corporate governance principles. HR competencies and experience should be used to assist business leaders with corporate governance, risk management and compliance issues within their organisations. The King III code highlights the importance of ethics at board, management and staff levels and, in particular, the need for an ethical culture. However, to think that an ethical code in itself will instil a culture of ethics is short-sighted. HR must expand its role from “steward” (which centres on workforce compliance and administration) – to “strategist” (which affects every governance, risk and compliance issue with a human element). The quality of input at board level is becoming increasingly critical, requiring far greater skill and time than ever before. Competition to attract and retain the right calibre person will increase and this, together with more onerous expectations imposed on board members, may cause the pool of competent and willing people to serve on boards to shrink. HR should also play a more proactive role in ensuring the appointment of the right staff with the right competence, values and ethics. HR due diligence is important to prevent damage caused by incompetence. Succession planning features prominently in the King III code. While the board will make most decisions with regard to succession planning while
HR departments assist in the process of matching the suitable candidates in critical leadership positions, based on proper job profiles and specific competencies identified through a rigorous competency analysis process. As part of the selection panel, HR can help to evaluate internal and external candidates and advise the selection committee on the recruitment and selection process, as well as remuneration. HR should also oversee the process of identifying and developing potential from within, where possible. Now that so many people issues are rising to the top of the strategic agenda, more and more companies are recognising the need to expand HR’s role in guiding the business, and are increasingly recognising the importance of the internal or ‘employer’ brand. However, the fact remains that many HR leaders have limited direct contact with the board. HR needs to become more skilled and better orientated to understand the board and its approach to governing the company. HR needs to ensure that the policies and procedures support the organisation and adhere to legislation. Reviewing the implications of the King III Report, HR has two choices – to either continue to operate as HR compliance officers, or to elevate the HR domain to the level of HR governance.”

Candidate D answered as follows:

“It is HR’s role to provide information, develop ethical cultures and environments. HR also has a governing role. HR as a profession needs to be professionalised in order to be taken seriously, because at this stage HR is only seen as an administrative function and not taken seriously at board level or by management. HR does not have the teeth to support the bark, there is no penalty for not adhering or adhering to the King III code or HR principles which make it very difficult to govern. Mandatory HR audits on a regular basis should be enforced where an organisation will get penalised if it does not adhere to best practices. HR needs to establish or be part of organisational governing committees to contribute and give input, HR should be part of the following committees; ethics, health and safety, skills development, risk, remuneration, performance management committees. The King III code is an excellent guideline to work from as the basic principles of the King III code, transparency, accountability, fairness and responsibility, will help the organisation to balance people governance, risk and business sustainability. HR governance is ‘the act of leading the HR function and managing related investments to’:

- optimise performance of the organisation’s human capital assets;
define stakeholders and their expectations;
fulfil financial responsibilities;
mitigate enterprise HR risk;
align the HR function’s priorities with those of the business; and
assist HR executive decision-making.”

Too much emphasis is placed on the technical knowledge and skills of employees, and not enough on the ethical character and behavioural fit. Every employee’s values and needs must fit the values and culture of the company, and HR can coach line management on how to fairly and legally probe for character when conducting interviews.”

Candidate E answered as follows:

“My concern is with new technology and HR’s role in governing information technology. Social networks like Facebook linked in and Twitter poses a new threat to the ethical culture and brand of an organisation. HR also has a role in creating policies and procedures to govern IT. HR needs to create the field with the rules of the game. HR should be responsible for governing the way people/organisation do things and at the level they perform. If a director is guilty of unethical behaviour, then HR needs to address the dilemma and follow the company’s policy and procedures. HR needs to have the authority to do that, but this is an issue, as HR is not taken seriously by organisations and an action like this could cost the HR person his job.”

All interviewees agreed that corporate governance is an essential part of an ethical culture, HR management are not aware of the critical role that they should play within corporate governance. Three interviewees are of the opinion that corporate governance is a responsibility of the finance department or the risk department if an organisation has one. All candidates agreed that remuneration is another important governance area for HR management. All interviewees agreed that HR management has an important role in advising
remuneration committees on fair and equitable remuneration for directors as well as compiling and executing remuneration policies and procedures.

The fourth question was: “How do you make ethical decisions within your organisation?”

Candidate A answered as follows:

“I always ask myself the following questions before taking action or deciding: Is the action or decision legal? How would it look if this action or decision was published? Is this action or decision aligned with the company values? Is it fair to all?”

Candidate B answered as follows:

“Ethical decisions consist of both rational and moral action, carefully evaluating information through a moral process and thereafter taking and implementing the most ethical choice.”

Candidate C answered as follows:

“There are two fundamental problems in identifying ethical standards:

- On what do we base our ethical standards?
- How do those standards get applied to specific situations we face?

These two problems create ethical dilemmas. If my ethics are not based on feelings, religion, law, accepted social practice or science, what are they based on? There are several sources of ethical standards, for example the utilitarian approach, the rights approach, the fairness or justice approach, the common good approach and the virtue approach. The approach I have adopted is a combination of all of them. Each approach helped me to determine what standards of behaviour can be considered ethical, although there are still some problems. For me the art of ethical decision-making requires a trained sensitivity to ethical issues and a practiced method for exploring the ethical aspects of a decision and weighing the considerations that should impact our choice of a course of action. Having a method for ethical decision-making is absolutely essential. When practised regularly, the method
becomes so familiar that we work through it automatically without consulting the specific steps. The more novel and difficult the ethical choice we face, the more we need to rely on discussion and dialogue with others about the dilemma. Only by careful exploration of the problem, aided by the insights and the different perspectives of others, can we make good ethical choices in such situations. The method I use is as follows: Recognise an ethical issue, then get the facts, evaluate alternative actions, make a decision and test it, and lastly act and reflect on the outcome.”

Candidate D answered as follows:

“Wow, this is not an easy task; it seems no matter what decision you make, there will always be some sort of conflict and consequences. Important decisions take time and careful thought. I use the following process: Think about the impact of your actions on all the stakeholders. Stakeholders are those people affected by a decision. Before you do anything, first determine who is likely to be helped or harmed, avoid or reduce the harm. Secondly, I will look at the ethical principles (trustworthiness, respect, responsibility, fairness, caring and citizenship) which form the ground rules of life. I will ask myself whether my option is trustworthy, respectful, responsible, fair, caring and an example of good citizenship. Thirdly, my ethical values (trustworthiness, respect, responsibility, fairness, caring and citizenship) will outrank and override unethical ones (money, popularity and prizes). Lastly, will the long run outrank the short run. After all these steps and I am still unsure of what to do, I will go with the choice that will produce the most good for the most people. To make these tough decisions, you always need to eliminate choices that have nothing to do with ethics (popularity, power and prizes), then pick the most ethical option left.”

Candidate E answered as follows:

“I gather as many facts on the ethical dilemma as possible and then I would consult with several experts in the field of the dilemma before making any decisions or taking any actions.”