The ebbing hegemon? An evolutionary perspective on the emergence of holistic governance and the efficient role of Institutional Investors in Environmental, Social and Governance issues (ESG)

The ebbing hegemon? An evolutionary perspective on the emergence of holistic governance and the efficient role of Institutional Investors in Environmental, Social and Governance issues (ESG)

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Structured Abstract

Purpose: This paper seeks to chronicle the roots of corporate governance form its narrow shareholder perspective to the current bourgeoning stakeholder approach while giving cognizance to institutional investors and their effective role in ESG in light of the King Report III of South Africa. It is aimed at a critical review of the extant literature from the shareholder Cadbury epoch to the present day King Report novelty. We aim to: (i) offer an analytical state of corporate governance in the Anglo-Saxon world, Middle East and North Africa (MENA), Far East Asia and Africa; and (ii) illuminate the lead role the king Report of South Africa is playing as the bellwether of the stakeholder approach to corporate governance as well as guiding the role of institutional investors in ESG.

Methodology/Approach: We steered a library-based research by critically analyzing the extant literature on corporate governance with the King Report (III) and other international corporate governance codes as an analytical tool in order to draw our conclusions.

Findings and Implications:

We found that, cultural, geographical differences as well as international contacts play a vital role in shaping the diverse systems of corporate governance across the globe. It is most apparent that on the regional segmented clusters of corporate governance as enumerated in the paper; traditional indigenous cultures, colonialism and the emerging economies' long relation with the Bretton woods institutions offered the architectural framework from which corporate governance evolved from within these countries, not loosing sight of the significant role the King Report offers the globe as regards holistic governance and the effective role of institutional investor in Environment, Social and Governance (ESG) Issues in the promotion of responsible investments. We conclude with a call for the need to speed the adoption of the stakeholder approach to corporate governance, as this would serve as a conduit to championing stakeholder accountability and transparency and aid offer a strong backing to institutional investors in policing corporations within both the corporate and mainstream world as regards ESG.

Originality: Much as there is the obvious existence of a plethora of research within the corporate governance arena as well as the role of institutional investors in ESG, expect for a recent paper to the best of the researchers knowledge by (Solomon and Maroun, 2012 ,2013 forthcoming) that looked at integrated reporting from the perspective of King Report III, there have been no attempt at profiling corporate governance from it historic roots while shredding light on the trial blazed by the king report III in relation to holistic governance/the stakeholder view and the effective role of institutional investors in ESG.

Further Research: This current research makes clear the need for further research with in-depth interviews as a conduit to ascertaining the awareness and practice of the Institutional investor community in South African-in their response to the noble calls of the King Reporting III and their role in ESG.

Keywords: Corporate Governance; Cadbury Report, King Report; Anglo-Saxon; MENA; Far East Asia; Africa; Stakeholders; Holistic Governance; Institutional Investors; ESG; Responsible Investments

1.0 Introduction

As investments and capital sourcing remain an integral part of the business world, so is the demand and guarantee of ones investments (Mallin, 2010). This has over the years reflected in the demands by shareholders and other stakeholders for access to vital information regarding their investments, returns and other interest (environmental, responsibility, responsiveness, transparency and accountability) as well as dividends.

This therefore means that, there exist a relationship between two or more persons where one ought to be accountable to the other resulting in what Jensen and Meckling (1976) termed the *agency relationship.* In this relationship, there exist a *principal* and an *agent* where the principal entrust upon the *agent* some responsibilities to perform on behalf of the *principal.* In the discharge of the responsibilities by the *agent* several issues may arise which could be detrimental to the *principal* as the *principal* possesses limited expertise with regards the responsibilities assigned to the agent resulting in what is known as an *agency problem* (Jensen and Meckling, 1976). A clear test of these problems resulted in some corporate scandal as the Enron, Barings, and Parmalat (Solomon, 2011; Mallin, 2010).

Owing to the *agency problem* and other issues of transparency, information asymmetries and accountability, and for the fact that businesses are pivotal to the growth and development of economies, the government of the United Kingdom produced the Cadbury Report. This report turned out to be the governing 'constitution' of their corporate sector; it trailed the blaze for several corporate governance codes to be developed. Mention can be made of the King Report of South Africa, the OECD Principles of Corporate governance, Sarbanes-Oxley Act 2002 among others that followed after the Cadbury Report. However, one limitation of most of these corporate governance codes and principles is that they are designed for listed companies and central to shareholders whiles placing stakeholders on the periphery. The resultant effect of this is that pertinent activities of companies on material social, environmental, ethical and governance issues, which have a direct effective on stakeholders, are as well neglected. Pursing the stakeholder concern and ensuring responsible investment is best driven by a community of investors within the stakeholder fold of society known as institutional investors. Despite their existence and potential for championing the progression of stakeholders for who they represent in fiduciary capacities, most corporate governance codes with the exception of the king Report III of South Africa have fail to ascribe to them their full recognition and a fecund space to operate.

In this paper therefore, attention is given to a review of literature pertaining to the global evolution of corporate governance focusing on stakeholder accountability and transparency. As well as concluding on the lead role the king report III of South Africa is currently playing in incorporating holistic governance into the broader rubric of corporate governance. Results from the research reveal the vital role cultural difference, colonialism, internationalization and the long standing relation between the developing world and the Bretton Woods institutions and how far that has gone in erecting the corporate governance architectural frame work of the developing world. It further exudes the prominence the King Report III of South Africa has offered institutional investors in carrying high and bright the torch of Social, Environmental and ethical issues leading up to responsible investment. Observations are that: expect for the West, there is less presence of effective institutional investor presence and their role in promoting social, environmental and governance issues within the developing world.

The research therefore sets off on a literature journey in establishing the emergence of the stakeholder and institutional investor role as espoused by the King Reporting III while calling for further research among the institutional investor community in South Africa through the conduct of in-depth interviews so as to ascertain the actual potency and positive activism in the fight towards ESG, hence responsible investments.

The paper is segment into four parts with the first constituting the introduction as enumerated above. A full-bodied definition accompanied by an evolutionary trace of corporate governance whiles shedding light on the stakeholder value is traced from the Anglo-Saxon world, through the Middle East and North Africa (MENA) to Far East Asia and Africa in section two. Section three offers an in-depth analysis of the King Report IIIs' role in offering institutional investors the room to promote ESG. Conclusion and the call for further research ends the paper in section four.

2.2 What is Corporate Governance?

2.2.1 Definition of Corporate Governance

The term corporate governance has over time been attributed to different interpretations and definitions. Though considered within its jurisdiction of operation, some attempts are been made at defining corporate governance. According to Shleifer and Vishny (1997), corporate governance involves how suppliers of finance guarantee themselves of earning their commensurate investments.

This definition however falls short of the aspect of control of the firm as well as stakeholder inclusion. The Cadbury Report (1992, p.14) simply defines corporate governance as "the system by which companies are directed and controlled". Inferring from this definition, it is evident that its focus revolves around the responsibilities of boards of directors, which is usually termed as internal control.

Of the numerous definitions of corporate governance, the King Report (2002) and Solomon (2011) appears to have embraced the stakeholder approach in their definitions of the discipline. Paragraph (4) of the King Report (2002) espouses the stakeholder approach to corporate governance as follows:

> Unlike [other corporate governance reports] the King Report …went beyond the financial and regulatory aspects of corporate governance in advocating an integrated approach to good governance in the interests of a wide range of stakeholders having regard to the fundamental principles of good financial, social, ethical and environmental practice… (King Report, 2002 p.7, para.4).

Another but extensive and stakeholder inclusive definition of corporate governance comes from Solomon. In her book; *Corporate Governance and Accountability*, Solomon (2011, p.6) defined corporate governance as *"the system of check and balances, both internal and external to companies, which ensure that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity".* This definition reflects almost all the strands of corporate governance but less emphatic on transparency, as companies could be accountable but *opaque* (less transparent). Notwithstanding this, for the purpose of this research, corporate governance is viewed from the definitive perspective of the King Report (2002;2009) and that of Solomon (2010) with an incorporation of transparency.

2.2.2 The Global Evolution of Corporate Governance

Many researchers and the business community has since the 80’s held the perception that most organizations and corporate setups have over the years discarded their responsibility to stakeholders (Fischel, 1982). In their bid to cure this corporate problem which Fischel (1982) considers “perceived”, several corporate governance codes and principles emerged with the Cadbury report (1992) perhaps as the foremost. If Fischel, perchance foresaw the Enron, Parmalat, the Royal Bank of Scotland and some extractive sector debacles like the BP Gulf of Mexico incident (Macondo), the recent South African Mine riots, the recent financial crisis (2008), he would probably have had a change of view with respect to the existing problems of corporate governance.

As described by Brennan and Solomon (2008), corporate governance is an eclectic concept with different elements and perceptions imbued with jurisdictional operational essentials. This therefore makes it different in diverse ways, hence multifaceted in nature. Also, an incorporation of the stakeholder as an integral part of corporate governance has succeeded in the evolution of corporate governance from a concept to a discipline (Brennan and Solomon, 2008). The UK Tyson Report (2003) for instance is reflective of a stakeholder dimension to corporate governance as it calls for the widening of the corporate boards’ net to include people from different shades of life and interest. Moving forward, the stakeholder perspective of corporate governance appears to have gained momentum with proposals from the south African King Report (2002; 2009) which promotes a more inclusive approach as regard stakeholders (Brennan and Solomon, 2008). Despite this, (MCwilliams and Siegel, 2001; Jensen, 2001) are of the opinion that the stakeholder approach of a corporation furnishes managers and interest groups an opportunity to further their own interest (i.e. social, environmental and ethical issues) which appeals and resonates with them at the expense of the stakeholder.

Jensen (2001,p.9) further solidifies this argument by expositing that "the stakeholder theory directs managers to serve 'many masters', he as well inferred from an old adage that '"when there are many masters, all end up being short-changed"'. However, interestingly, there are several evidence including that of Jensen that points to the fact that imbedding the stakeholder as an integral part of a firm is an inevitable role that every business seeking growth, survival and legitimacy must embrace (Archel et al., 2011; Jensen, 2001; MCwilliams and Siegel, 2001; Cadbury, 2000a). The stakeholder concept is therefore emerging as a common feature in all the different systems of corporate governance.

2.2.3 Systems of Corporate Governance

2.2.3.1 Anglo-Saxon Corporate Governance

Within the Anglo-Saxon setting, a cocktail of events sparked the tiding waves of corporate governance. The Information technology bubble (Chen and Chen, 2012), the Arthur Anderson, the WorldCom, and the Enron epics amongst others could be counted as some corporate scandals which fuelled Anglo-Saxon corporate governance. As these are recent cases, we are in no way suggesting that corporate governance commenced in the height of these incidences. In fact, works of (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983), points to substantial empirical evidence of corporate governance in the Anglo-Saxon world long before the emergence of modern day corporate scandals, of which are cited by many academics and industrial professionals as “the straw that broke the camels back” as well as the matchstick that lit the proliferation of corporate governance, especially within the Anglo-Saxon setting (Charreaux and Desbrières, 2001; Jennings and Marques, 2011; Weimer and Pape, 2002; Mallin et al., 2005).

The United Kingdom (UK) and the United States of America (US) are considered as the lead countries with respect to Anglo-Saxon corporate governance. Canada and Australia as well fall within this league. However, despite these countries being classified as such, it appears quite difficult to apply regionalism within the corporate governance realm due to international trade, mergers [and acquisition] (Cernat, 2004) as well as diversity (Berglöf and Thadden, 1999). This notwithstanding, Cernat (2004) is of the opinion that financial market liberalization could lead to some segmented integration of corporate governance (i.e. toward the Anglo-Saxon system).

Throughout the world of commerce, the Anglo-Saxon model of corporate governance has been viewed as much inclined towards listed companies, but as succinctly put by Cadbury (2000b,p.2) “ the state-owned and private companies of today are the public companies of tomorrow and they, therefore, need to take note of governance trends”. This notion as proposed by Cadbury continues to seed the existence and yet to be corporate governance codes within the Anglo-Saxon circles. In terms of codes within this system, mentioned can be made of the UK Cadbury Report (1992), the Canadian Dey Report (1994), the UK Greenbury Report (1995), the UK Hampel Report (1998), the UK Turnbull Report (1999), the US Sarbanes-Oxley Act (2002), the UK Combined Code (2003, 2006), the Australian Principle of Good Corporate Governance and Best Practices Recommendation (ASX 2003, 2007), not to mention but a few.

Although viewed from the same lens, the above differences with respect to the nomenclature attributed to these codes is reflective of the fact that there exist some form of differences in relation to their evolutionary processes, forms and operability. There is also the existence of jurisdictional differences, for instance, the UK, the Australian and Canadian systems all adhere to the principle of 'comply or explain' (Yang, 2011; Christensen et al., 2010) whereas the US adopts strict and to an extent some draconian measures[1] (Mullineux, 2010).
Mullineux (2010,p.2) explicitly put this as "… the UK [favoring] ex ante scrutiny… whereas ex post litigation is [favored in the US]". As well, it is interesting to note that, the Anglo-Saxon system of corporate governance is more akin, appreciative and protective to the shareholder than the stakeholder (Charreaux and Desbrières, 2001; Schillig, 2010). This practice however seems different in recent times as Institutional Investors have become dominant within the Anglo-Saxon setting (Mallin et al., 2005), but Lehmann and Weigand (2000) sights this as deceptive because ownership concentration could be a deceitful and inadequate indicator of exerting control of affairs. They are however of the opinion that if financial institutions constitute a greater percentage of the ownership structure of a firm then a more positive impact could yield, as financial institution are considered efficient monitors.

However, although Institutional Investors could be considered to some extent as stakeholders, this opinion seems not to appeal to:

[1] Section 802 on Criminal Penalties for Altering Documentations of the Sarbanes Oxley Act 2002 for instance states: "§ 1519. **Destruction, alteration, or falsification of records in Federal investigations and bankruptcy;** "Whoever knowingly alters, destroys, mutilates, conceals, covers up, falsifies, or makes a false entry in any record, document, or tangible object with the intent to impede, obstruct, or influence the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States
or any case filed under title 11, or in relation to or contemplation of any such matter or case, shall be fined under this title, imprisoned not more than 20 years, or both (see The Sarbanes Oxley Act 2002).

(Weimer and Pape, 1999; Weimer and Pape, 2002; Schmidt and Spindler, 2002) as they place the two-tier board Germanic or Continental or Rhineland corporate governance superior (Weimer and Pape, 1999) over the one-tier Anglo-Saxon model (Mallin et al., 2005). This is informed by existence of the supervisory board (within the Germanic system) which is lacking in the Anglo-Saxon model of corporate governance; nonetheless, it could be argued that the presence of the executive, non-executive, appointments and remuneration committees can all together compliment an efficient supervisory role hence achieving what many believe is missing within Anglo-Saxon corporate governance. Moreover, recent legislation in the US and UK somewhat strengthens public oversight, with the corporate systems borrowing lessons from the collapse of Enron and Arthur Anderson (Mullineux, 2010).
Additionally, the whistleblowing legislation introduced and practiced in countries like Australia (Pascoe, 2010) do have the potential of salvaging to an extent some corporate collapses or failures within this system.

As opined by Cadbury (2000b), there is no single right model of corporate governance, it therefore needs to be nurtured and developed overtime within a particular system. This thus calls for an exploration of other models of corporate governance.

2.2.3.2 Corporate Governance in the Middle East and North Africa (MENA)

English written research and publication are quiet low on corporate governance in the MENA (Brierley and Gwilliam, 2002). Notwithstanding this, a blend of Islamic laws (i.e. Islamic Sharia) (Ali, 1990) and conventional banking principles present an interesting scenario of corporate governance within this arena where a good number of constituting countries are Muslim states. In

MENA, the cultures of the people are predominately Arabian, so they turn to mimic the cultures of the Gulf which are closely knit economically, politically and Socially (Chahine, 2007). Not until after the 1980's it was unclear as to how to characterize the financial market within MENA to the pervasiveness of less regulations (Sourial, 2004). Sourial (2004), Categorized and describe the MENA in three distinct economic strands as follows; firstly Egypt, Jordan, Morocco and Tunisia which due to economic reforms opened up their economies for privatization, followed by the Gulf where oil revenues acts as an economic stabilizer and lastly countries like Lebanon, Libya, Algeria, Yemen and Sudan where political instability is stagnating growth.

Coupled with these is the poor ownership structure and control of firms within MENA, especially in Tunisia (Khanchel El Mehdi, 2007), Egypt (Elsayed, 2007) and almost all countries within the MENA region (Sourial, 2004), firm ownership and control is by strong block holders who are usually family heads or elders. This trend is highly inimical to corporate practices because it is susceptibility to insider trading hence a consequential effect on a firms' performance. Likewise, less privatization, close political system and poor regulations are major features within the financial market in the MENA (Chahine and Tohmé, 2009; Ben Naceur et al., 2007). However, the buoyant nature of the Gulf States gives indication to the direction that they will through oil trade conceal the realities for a period but with devastating corporate consequences following in the future. It is however, refreshing to note that some states are given indications of transparency and the advancement of some codes of governance. Once there is a great and continuous call for reforms and institutional development, one is tempted to say there is some light at the end of the tunnel.

2.2.3.3 Corporate Governance in the Far East Asia

A distinguishing feature of the Far East Asian corporate market is that the giants within this environment are either transiting or have transited from a communist to a free market economy, China and Russia are countries that readily come to mind (McCarthy and Puffer, 2002; Tam, 2002) within this region. Economic failures by most countries within the Far East led to the growth of corporate governance in this region (Tam, 2002; Tran Ngoc Huy and Tran Ngoc Hien, 2012). The aftermath of the Asian and recent global financial crisis of 2008 are also being counted as having contributed to this growth (Dinh Tran Ngoc, 2012).

Elsewhere within this region, Russia is viewed as one of the economies that has embrace corporate governance in order to create a conducive market for foreign investments (McCarthy and Puffer, 2002). In a research paper to ascertain the style of corporate governance in Russia, McCarthy and Puffer (2002) cites Vimpelcom as the first Russian company to have enlisted on the New York Stock Exchange (NYSE) due to its embrace of good corporate governance principles. They further indicated how Yuko oil has increased its value through the practice of positive corporate principles in their quest to also enlist on NYSE. All of these they believe are influenced by International corporate standards, hence the conclusion that Russia’s significant strides in achieving robust corporate governance is influenced by the industrialized world.

Albeit improvement in corporate practice within Russia, the prolong decades of communism and the practice of resorting to one’s ‘contacts’ in government or higher positions to get things done present a challenge to the holistic achievement of formidable corporate practices (Puffer and McCarthy, 2003). This situation stands aggravated coupled with the fact that insiders dominate the private sector in Russia, also, the system is fraught with weak procedures, standards as well as low levels of transparency (Estrin and Wright, 1999). In effect, the Russian system could be one that will produce a corporate governance model reflecting the country's practices and culture(McCarthy and Puffer, 2002).

Notwithstanding the Asian crisis of 1997-1999 (Tran Ngoc Huy and Tran Ngoc Hien, 2012), the dominance of family control within Asian firms (Haniffa and Cooke, 2002) and the high presence of the state in the Chinese economy (Tam, 2002), China is still held in high stead within the global economic hierarchy. Witt and Redding (2012,p.4), beautifully describes Chinese economy as:

> "By any measure, China has re-emerged as a major player in the world economy. By the latest reckoning, it now has the world's second-largest GDP, whether measured at nominal or purchasing-power parity exchange rates; produces the world's largest trade surplus; holds the world's largest foreign-currency reserves; attracts less foreign investment only than the United States; and is now the world's largest market for a range of products, including automobiles".

With this current growing economic state of China described above, it is, however, interesting to note that the Chinese are still grappling with challenges like culture and the influence of the State through the Communist Party of China (CPC) in the day to day running of government, quasi-government and private firms. Not too distant in the past and even till the year 2000, listing of firms were not determined by compliance criteria but by political merit, in fact Chinese corporate bosses viewed cooperate governance as a modern style of management (Tam, 2002) than a necessary component of their corporate activities. Tam (2002) Irrefutably, attributes this, to the cultural translation of the discipline corporate governance-the term *"Fa ren zhi li jie gou"* (the literally Chinese translation of corporate governance) portrayed more of a supervisory and administrative role than a corporate discipline that is to be incorporated into a firm and its operations. Evidence of the effect of the state control of the Chinese economy is illuminated by Lin et al. (2009,p.1) who in an academic paper seeking to determine governance and firm efficiency from a sample of 461 manufacturing public listed Chinese companies within the period 1999 and 2000 concludes that "the firm's efficiency is negatively related to state ownership while positively related to public and employee share ownership".

A common trait of family domination within firms runs across all countries in the Far East with less of it in Japan but highly concentrated in Indonesia and Thailand and also with a representation of heavy presence of the state in Singapore, Korea, Indonesia, Thailand and Malaysia (Claessens et al., 2000). Such characteristics mimic less disclosures and transparency within public corporation in East Asia (Fan and Wong, 2002).

In the Case of Japan, much foreign influence has been felt over the years and has played a significant role in their corporate structure and activities. The California Public Employees' Retirement System, CalPERS played a significant role in the positive activities of institutional investors in Japan, pension fund activism is much attributed to it for the positive role it played in inculcating some sort of corporate discipline due to its high ownership presence on the Japanese stock market (Jacoby, 2007). Japan therefore appears as standing tall within Far East Asia in reference to corporate governance as well as attracting a positive attribution to the Germanic system. But Dore (2005) however, is of the opinion that most Japanese worker unions are now playing consultative roles because they have lost their communal bargaining power compared to the German system where the centralized union model has succeeded in offering unions much leverage.

All of these therefore echo the need for more to be done to enhance a positive corporate culture within the Far East Asia.

2.2.3.4 Corporate Governance in Africa

In an egalitarian society like Africa, it will be no wonder that some forms of traditional corporate governance might have been practiced in the pre-colonial and post-colonial eras. Elements of it, is what is found in the lead role South Africa is playing as a torchbearer of corporate governance-embedding the stakeholder approach (Rossouw et al., 2002), as well as pioneering integrated reporting [2] globally-where companies are meant to report their financial, social, environment and ethical issues in a single report known as the integrated report (Solomon and Maroun, 2012). This stage of corporate reporting however was not achieved on a silver-platter. During the apartheid regime; South Africa was completely cut out of the world economic map due to the highly turbulent nature characterizing the era, the country experienced economic sanctions which invariably affected economic growth rates (Vaughn and Ryan, 2006). Economic progress however, began to sprout after the collapse of apartheid in 1994 (Vaughn and Ryan, 2006; Kakabadse and Korac-Kakabadse, 2001; Lund-Thomsen, 2005). By becoming the bellwether of corporate governance in Africa (Vaughn and Ryan, 2006), the passage of very important regulations like the South African Insider Trading Act (1998) which aided the Financial Services Board (FSB) in asserting its legal authority over recalcitrant firms (Vaughn and Ryan, 2006); the 2004 Socially responsible investment (SRI) Index for the promotion of

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[2] South Africa is by far the first country in compliance with the King report III (2009) to have introduce integrated reporting on a national scale, where companies listed on the Johannesburg stock exchange with effect from the year 2010 are expected to produce a single integrated annual report encapsulating financial, social, Environmental and Ethical reporting which hitherto use be produced in two separate reports known as the annual financial report and the sustainability report (Solomon and Maroun, 2012).

responsible corporate citizenship (Rossouw, 2005); the Mines Health and Safety Act of 1996 in a bid to improving the grim safety standards within the South African mining industry (Hamann, 2004); as well as the King Report I (1994); II (2002) were in motion, which finally culminated in the King Report III (2009). But as Kakabadse and Korac-Kakabadse (2001) relates, effective governance is premised on principles such as morality, legitimacy, transparency and accountability which they view as onerous for a developing economy like South Africa to achieve, an indication of more to be done within the corporate governance arena in Africa.

This not withstanding, Ghana, Nigeria, Uganda, Kenya and Zimbabwe have after the advent of colonial rule and before the Cadbury eon offered an indication of a growing concern for Corporate Governance. Yakasai (2001), expounds this, in reference to the Enterprises Promotion Acts 1972, 1977 and the Company and Allied Matters Act (CAMA) 1991, both of which were born out of the quest of promoting and governing businesses and their shareholders in the then nascent Nigerian oil and gas industry which predates the Cadbury Report of the UK. He however bemoaned the infectiveness of the CAMA 1991 with respect to Private Limited Liability Companies and Public Limited Liability Companies (Plcs) in Nigeria as follows:

> "Whereas the former is known for its simplicity and effective management, facilitating the provision of capital, encouraging business growth, inducing innovation in industry/commerce and creating wealth, the latter which is the vogue in business circles and global markets is fraught with lethargy, nonchalance and lack of personal touch due to the legal separation of ownership from management. In spite of this legal complexity, it is often the case even in Nigeria that

ownership is the basis of power exercised through the annual general meetings of plc companies, an occasion where the shareholders wine and dine, nominate and elect their directors who, in the conventional wisdom and legal fiction provided by Company and Allied Matters Act (CAMA)… reciprocate through accountability as mirrored in their regular reports and audited financial statements". (P. 241)

Rossouw (2005), makes clear the assertion of (Yakasai, 2001) in a survey of corporate governance developmental trends across the African continent which reveals Nigeria as the only country without an inclusive standard of corporate governance with an embrace of a broad spectrum of stakeholders. Within the Ugandan context (Wanyama et al., 2009) calls for a sound corporate governance regime within an elaborative framework as the sheer advent of governances codes are insufficient in the creation of a healthy corporate environment.

In a published report on corporate governance practices in Ghana by the Ghana Institute 0f Management and Public Administration (GIMPA), out of a 100 companies surveyed based on turnover reports, 7 had their non-executive directors out-numbering their executive members; 19 had boards of 5 or less and 37 possessing boards in the range of 11 to 15 members giving an indication of no stark difference from the norm (Gilham, 2004). The report further indicates accountability as a concern, which reflected 46 out of 61 as not having a manual for their boards; 49 indicating their accountability to shareholders; 5 indicating their accountability to the government and 1 private firm indicating accountability to their CEO, the most revealing of all in this survey is the citing of The Social Security and National Insurance Trust (SSNIT), the state pension body and the Ghana National Petroleum Corporation

(GNPC) also a state enterprise in their lax to producing annual reports as well as a perpetual habit of over borrowing (Gilham, 2004).

Inferring from the discussions on corporate governance in Africa, it is apparent that, corporate governance structures in Africa are drawn from colonial and the Bretton Woods institutions' (World Bank and IMF) policies i.e., Structural Adjustment Program (SAP) which had had an economic relationship in the past and still continues to (Yakasai, 2001; Okpara and Kabongo, 2010; Wanyama et al., 2009; Gilham, 2004). As these existing framework of corporate governance within the current African rubric hasn't been able to live up to expectation by proffering accountability, transparency, and an all compassing stakeholder inclusiveness but rather appears to be riddled with institutional weakness and pervasive corruption, there is the urgent need to incorporate socio-political and cultural elements in the design, construction and implementation of corporate governance frameworks within Africa (Wanyama et al., 2009; Judge, 2009; Klapper and Love, 2004; Okike, 2007).

3.0 The King Report III and its Effectiveness on Institutional Investors in ESG

As have been enumerated in this paper, the King Report III is by far the only international Corporate Governance code that confidently exudes stakeholder inclusivity, hence, recognizing institutional investors as a potent *'cadre core'* to pushing forward issues of Environment, Social and Governance (ESG). It champions this in explicit terms as: "[An] 'apply or explain' market-based code of good practice in the context of listed companies, such as King III, is stronger if its implementation is overseen by those with a vested interest in the market working, i.e. the institutional investors.

Recent experience indicates that the market failures in relation to governance are, at least in part, due to an absence of active institutional investors"(King Report, 2009 ,p.9). It goes further to back this claim in that " these institutions are 'trustees' for the ultimate beneficiaries, who are individuals…[where] the ultimate beneficiaries of pension funds, which are currently among the largest holders of equity in South Africa, are individuals who have become the new owners of capital…[hence] a departure from the share capital being held by a few wealthy families, which was the norm until the end of the first half of the 20th century"(King Report, 2009 ,p.8). This is in consonance with recent studies that firmly point to the fact that firms prioritize their stakeholders in hierarchical order with the quality of products and service coming first and the trust and confidence of stakeholders coming second(King Report, 2009). All of these among others such as people, planet and price as well as the three independent sub-systems of the natural environmental, social and political system and the global economy make strong the case for institutional investors and other stakeholders to be of a firm's priority hence actively driving ESG. Owing to the fact that environment, sustainability, people and profit are inextricably linked, the King Report (2009 ,p.12), advocates that "by issuing an integrated report internally, a company evaluates its ethics, fundamental values, and governance, and externally improves the trust and confidence of stakeholders".

Also, "the market capitalization of any company if listed on the JSE equals it's economic values and not its book values…[whereas] the financial statement of a company, as seen in it's balance sheet and profit and loss statement, is a photograph of a moment in time of its financial position…[hence] the king report's [recommendation for integrating] sustainability performance and integrated reporting to

enable stakeholders…make a more informed assessment of the economic value of a company”(King Report, 2009, p.12). An “integrated report should therefore have sufficient information to record how the company has both negatively and positively impacted on the economic life of the community in which it operated during the year under review, often categorized as environmental, social and governance issues (ESG) [and] further…report how the board believes that in the coming year it can improve the positive aspects and eradicate or ameliorate the negative aspects, in the coming year” (King Report, 2009, p.12).
This modest ethos of the King Report III if followed in spirit and letter as well as perused rigorously by both regulators and industry would undoubtedly equip institutional investors and stakeholders alike in achieving the integration of ESG as a fulcrum of *‘the firm’*.

4.0 Conclusion

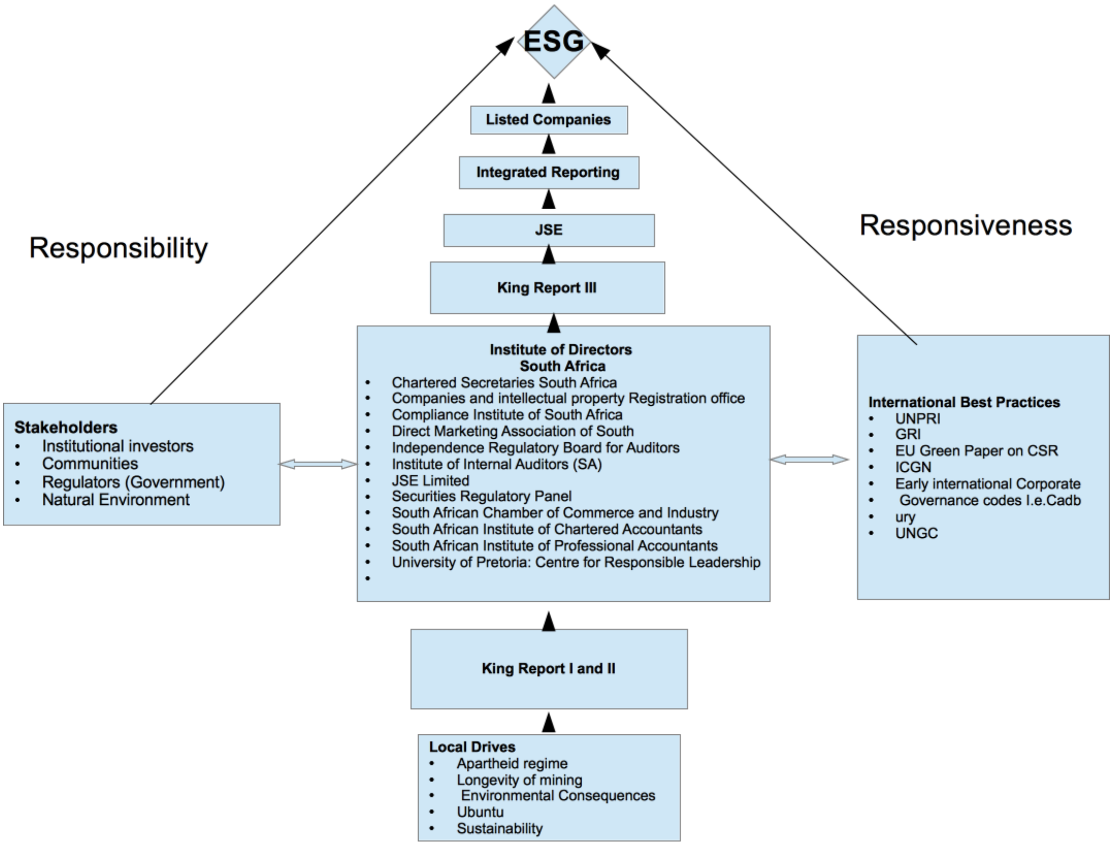
Following the recent financial crisis of 2008 and the current debate on climate change and environmental sustainability, there have been urgent and compelling calls for firms to integrate within their operations key and relevant stakeholders as by way of communicating their various activities that have potential impacts as well as tangible impacts on their said stakeholders. This is all called for and backed in the spirit of exercising accountability and transparency, hence good corporate governance.

Despite the rife in the current *‘Shareholder-Stakeholder’* debate, a significant shift in the definition of corporate governance where the stakeholder strand has be illuminated points to the crescendo pace as to how stakeholder concerns are becoming an integral aspects of corporate governance. Within the existing literature on corporate governance, though there is the reflection of a the shareholder value as against the stakeholder value, there is as well a dip in the growth of the shareholder value with a rapid move towards stakeholder through institutional investors.

Geographical differences as well as international contacts played and still continue to play a vital role in shaping the diverse systems of corporate governance across the globe. It is most apparent that on the regional segmented clusters of corporate governance as enumerated above, traditional indigenous cultures, colonialism and the emerging economies' long economic relation with the Bretton Woods institutions presented the architectural framework from which corporate governance evolved within these economies. This not withstanding, the King Report I following the Cadbury has since its inception whigged into a zenith of stakeholder inclusion in its latest version-the King Report III. This international corporate governance code has by far demonstrated a commitment to elevating holistic governance and stakeholder inclusion while offering institutional investors the muscle to act in responsible directions towards Social, Environmental and governance (ESG) issues in corporate governance. This call is laconically put forward by the King Report III: "[An] 'apply or explain' market-based code of good practice in the context of listed companies, such as King III, is stronger if its implementation is overseen by those with a vested interest in the market working, i.e. the institutional investors. Recent experience indicates that the market failures in relation to governance are, at least in part, due to an absence of active institutional investors"(King Report, 2009 ,p.9).

Owing to the mere absent and weakness of institutional investor in the Africa (The King Report III offering glimmers of hope), MENA and Far East Asia (with the exception of Japan-for there is evidence of the potent role of institutional investors with the presence of the California Public Employees' Retirement Systems (CalPERS)), an exigent need therefore offers itself for further research with in-depth interviews as a conduit in ascertaining the awareness and practice of the institutional investor community in South Africa and the response to the noble calls of the King Report III and their role in ESG.

Fig 1: The Supporting and Operational 'contours' of King Report III Leading to ESG



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