



INSTITUTE OF  
DIRECTORS  
SOUTH AFRICA

# Guidance for Social and Ethics Committees

## SOCIAL AND ETHICS COMMITTEE TRENDS SURVEY REPORT 2020

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*A special thank you to all the Social and Ethics Committees that participated in this survey.*

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*The objective of the Forum is to serve as a platform for discussion and dissemination of guidance to social and ethics committee members either in the form of papers or events.*

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- |                           |                             |
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*The first edition of the Social and Ethics Committee Trends Survey Report was published in November 2020*

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# Foreword

The requirement for a Social and Ethics Committee was first introduced in the 2008 Companies Act of South Africa. The detail about the mandate, membership and powers of the committee were provided in the Companies Regulations (2011), and on 1 May 2012 it became mandatory for certain categories of companies to have a Social and Ethics Committee (SEC).

The publication of the King IV Report on Corporate Governance™ for South Africa 2016 (King IV™) had a major impact on the evolution of the SEC. King IV recommendations regarding the role, responsibilities, and membership of the SEC went beyond the statutory prescriptions for the SEC. Whereas the statutory mandate is compliance-focused, the King IV recommendations on the mandate of SEC is governance-focused. Furthermore, King IV recommended that additional areas of responsibility should be included in the mandate of the committee. Furthermore, King IV also recommended that the social and ethics performance of all organisations should be governed, and not only those of companies mandated by the Companies Act and Regulations. Organisations thus faced - and often still are facing – the challenge of reconciling the statutory view of the SEC with the King IV view of the SEC.

The governance of the social and ethics performance of organisations is not something new on a global scale. Governing bodies in various parts of the world have been governing the social and ethics performance of organisations to some extent for decades. What is unique about the SEC, is that it is a statutory committee required by legislation in South Africa. Thus, the statutory nature of the governance structure, rather than the social and ethics mandate of the committee, is unique on a worldwide scale.

Although the SEC was introduced approximately 8 years ago, there is scant information about the nature, effectiveness, and perceived impact of the SEC. A small number of studies on the SEC have been conducted to date, most of which used very small sample sizes to inform their findings.

In 2019, the Institute of Directors in South Africa (IoDSA) approached The Ethics Institute (TEI) to collaborate with and endorse the establishment of a Social and Ethics Committee Forum. One of the first projects undertaken by the Forum was to conduct a Social and Ethics Committee Trends Survey.

The purpose of this survey was to collect representative data on the SEC that can be used as a baseline for analysing trends with regards to the SEC over time.

This first edition of the SEC Trends Survey represents the data collected from 75 organisations regarding the way in which the SEC operates within these organisations. Rich quantitative and qualitative data was collected, and it provides insight into the nature, composition, effectiveness, but also challenges and impediments of the SEC.

I would like to thank my colleague, Dr Paul Vorster, who acted as lead researcher for this project, as well as Nicole Konstantinopoulos for her able assistance. I am also grateful to Vikeshni Vandayar and Julie Dixon from the IoDSA for their assistance throughout the research process, as well as with the finalisation of this report. Finally, I would like to thank the members of the IoDSA SEC Forum for their feedback on the questionnaire design as well as on the first draft of this report.

I trust that the findings of this survey will contribute to enhancing the prominence, legitimacy and impact of the SEC.

**Prof Deon Rossouw**

**Chairperson of the IoDSA SEC Forum & CEO of The Ethics Institute**

# Introduction

The Social and Ethics Committee Trends Survey of 2020 (SEC Trends Survey 2020) was undertaken by the Social and Ethics Committee Forum of the IoDSA and is a joint project of the IoDSA and TEI.

The survey is designed to gather information about the nature, effectiveness and impact of SECs operating in South Africa. This study will serve as a baseline study to analyse trends regarding SECs over time and it is our intention for this Survey to be conducted regularly.

The SEC Trends Survey Report is composed of five sections:

**Section 1** provides an overview of the sample characteristics with special emphasis on how gender and ethnicity data compare to other board committees. Furthermore, this section provides a descriptive overview of the SECs sampled.

**Section 2** looks closely at the characteristics of SECs operating in South Africa such as what SECs are named, what are the reasons for their establishment, whether they are standalone committees, and how they interact with other committees and operational structures in the organisation.

**Section 3** explores more closely the issues in which SECs invest most of their time and energy, providing an indication of the priorities of the SECs operating in South Africa.

**Section 4** focuses on some vital statistics of SECs, such as the average size, remuneration of SEC members, as well as the perceived impact of SECs.

**Section 5** addresses the challenges and impediments faced by SECs, that is, what aspects of their functioning may impede the primary mandate of the SEC.

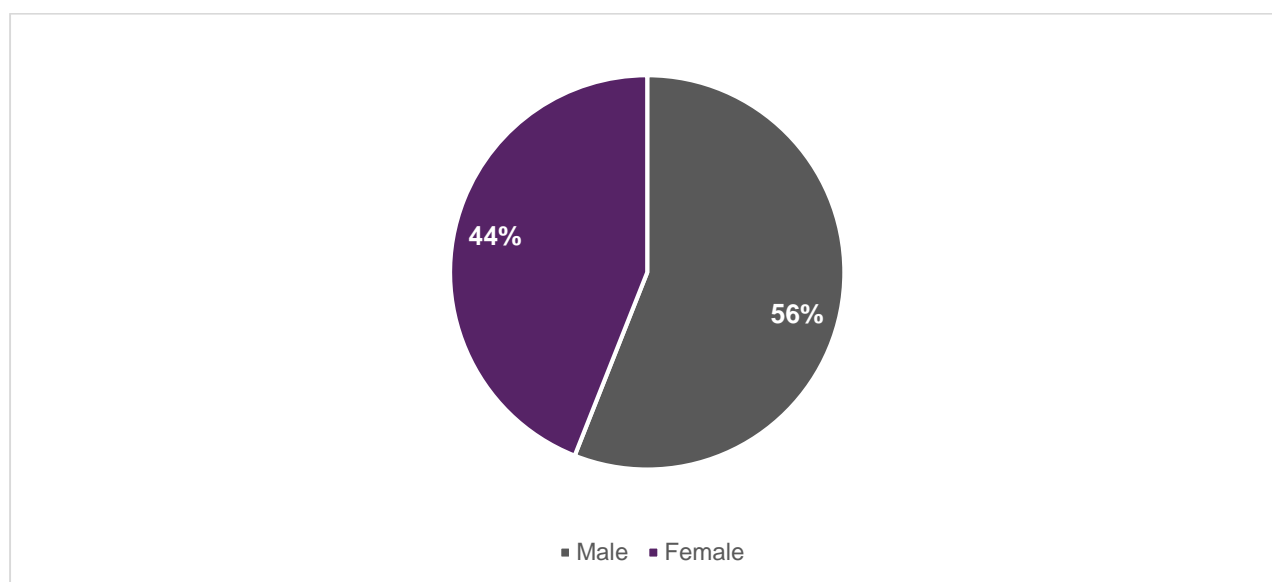
Finally, **Section 6** of this report provides some overarching guidelines and recommendations related to the findings of this survey.

# SECTION 1: BIOGRAPHIC CHARACTERISTICS OF THE SEC

The SEC Trends Survey was designed to measure the nature of SECs by asking the Chairperson of the SEC to complete a set of survey questions about their committee. A total of 75 SEC Chairpersons (or a person designated by the Chairperson) completed the survey. The survey therefore encompasses information from SECs of approximately 75 organisations in South Africa. This is the biggest sample of SECs surveyed to date.

In the following sections, a breakdown of the biographic characteristics of the sample is provided. There is also a comparison of data to averages with certain biographic sections such as gender and ethnicity.

## 1.1 Gender diversity

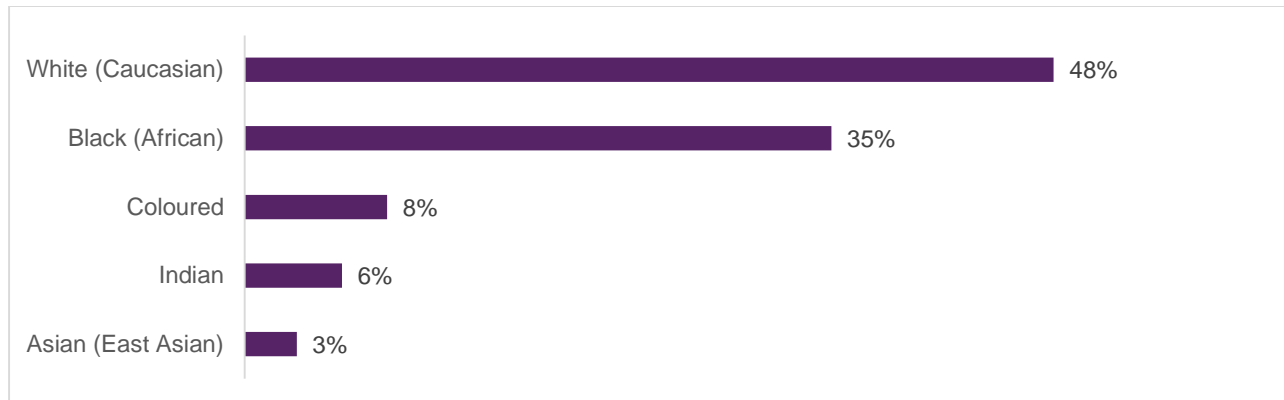


The gender diversity in SECs is slightly higher for males (56%) compared to females (44%). However, gender composition for SECs outperform the average for other board committees. Viviers et al. (2017) found that only 25% of board committees in South Africa consisted of women.

The Governance Metrics International (GMI) rankings compiled in 2013 with a board sample of 5 977 organisations globally, found that women hold only 11% of board membership positions (Gladman, et al., 2013). Within the GMI, South Africa was ranked fifth in terms of board gender diversity. This indicates that more needs to be done to introduce gender diversity into board committees both locally and abroad.

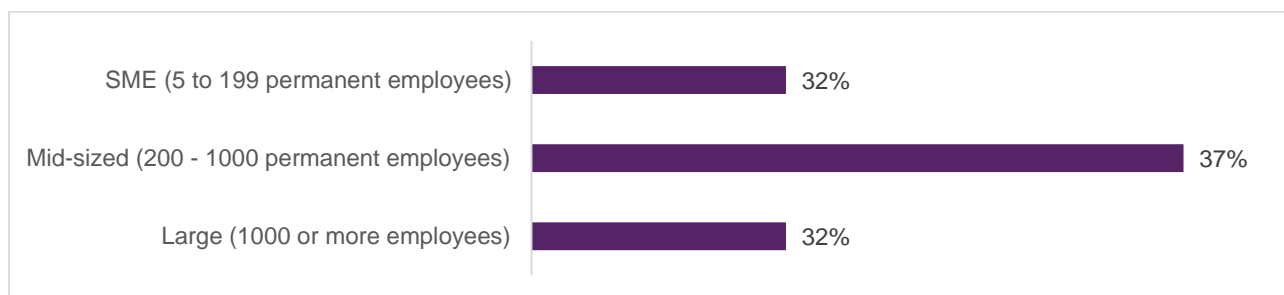
Against this background, the SECs sampled in this report had significantly higher representation of women, indicating that SECs may lead the way in terms of gender diversity on boards in South Africa.

## 1.2 Ethnic diversity



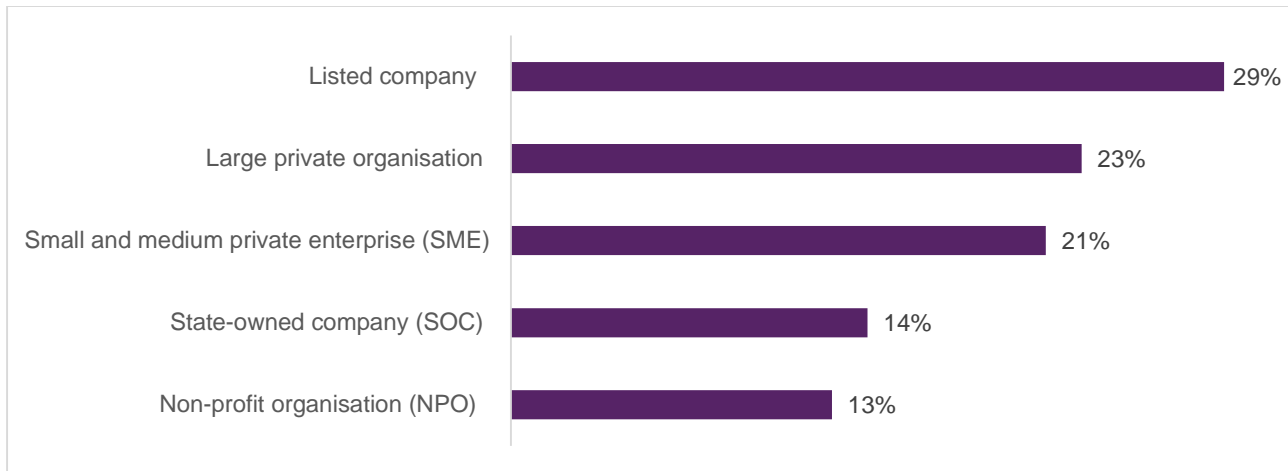
Mans-Kemp and Viviers (2015) in their investigation of board diversity in South Africa found that approximately 34.8% of board members are of Black African ethnicity. This data was compiled from over 1500 observations of JSE listed companies over a 10-year period. In comparison, SECs in the sample were approximately at the same level as the evaluated average. This indicates that more needs to be done to improve transformation within SECs.

## 1.3 Organisation size



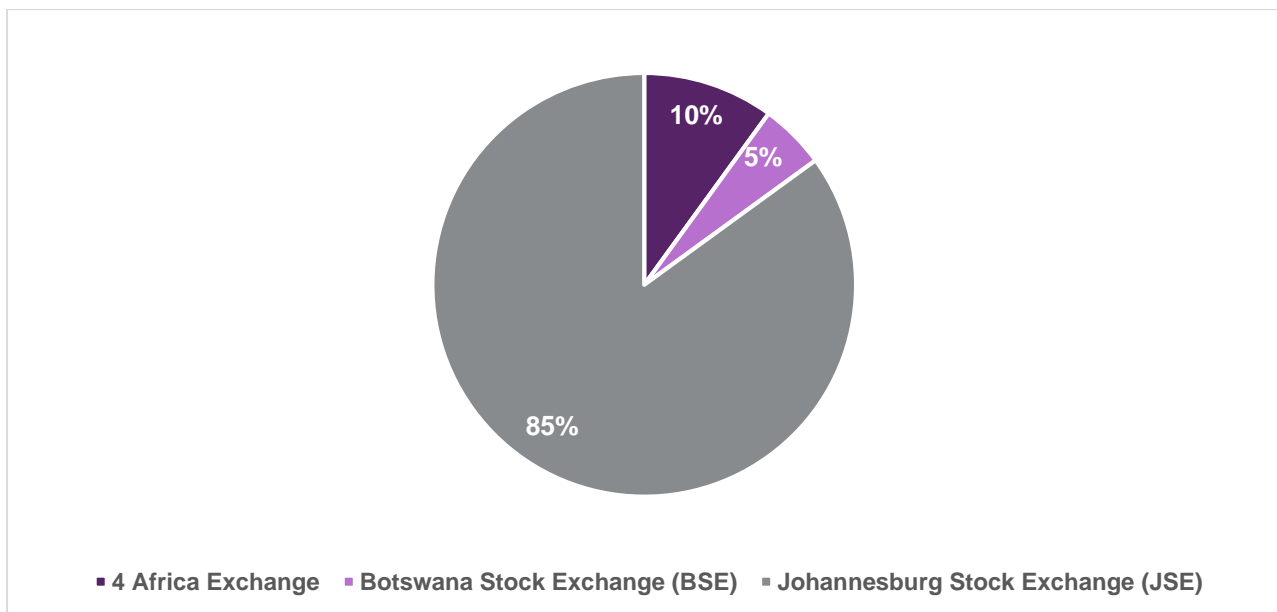
Most of the sample was composed of mid-sized organisations (37%), with good representation from SME (32%) and Large organisations (32%).

## 1.4 The nature of the organisations sampled



The sample consisted mostly of listed companies followed closely by large privately-owned organisations. Non-profit organisations make up the smallest proportion of the sample, followed closely by state-owned companies.

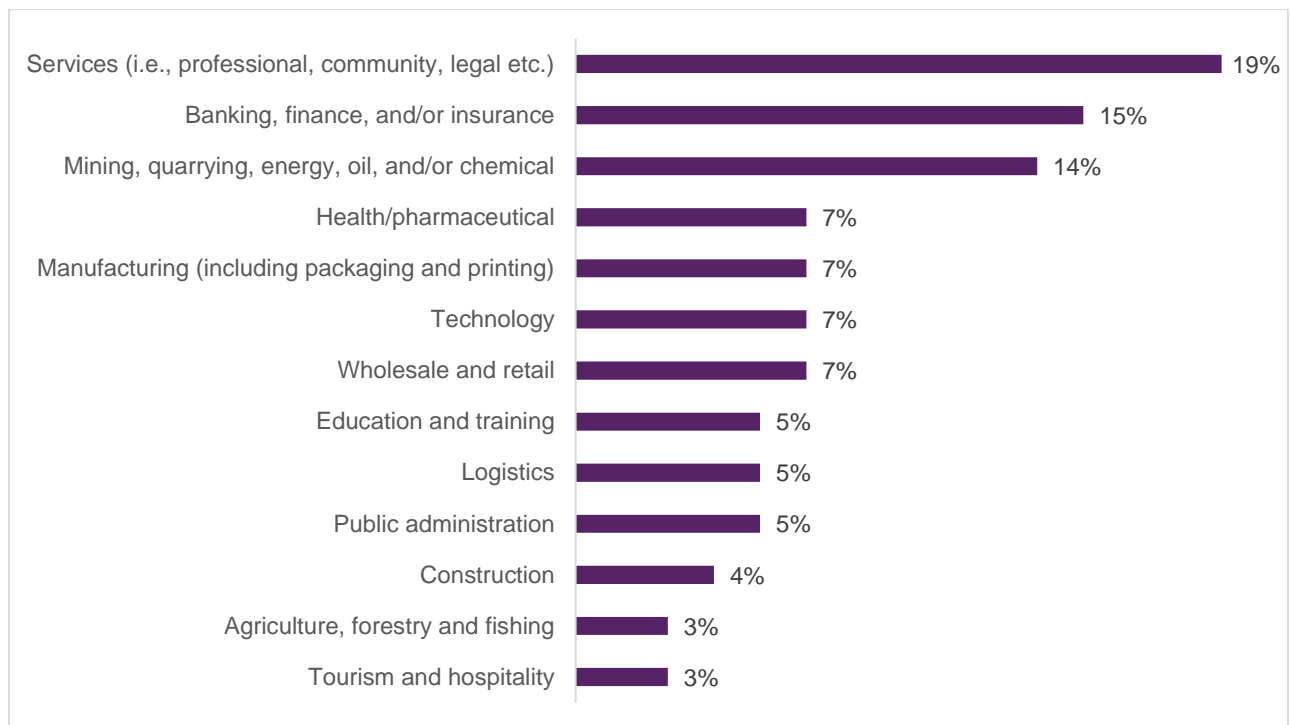
## 1.5 Stock exchange representation



The majority of listed companies from the sample are listed on the Johannesburg Stock Exchange, with the 4 Africa Exchange and the Botswana Stock Exchange also represented.



## 1.6 Sector representation

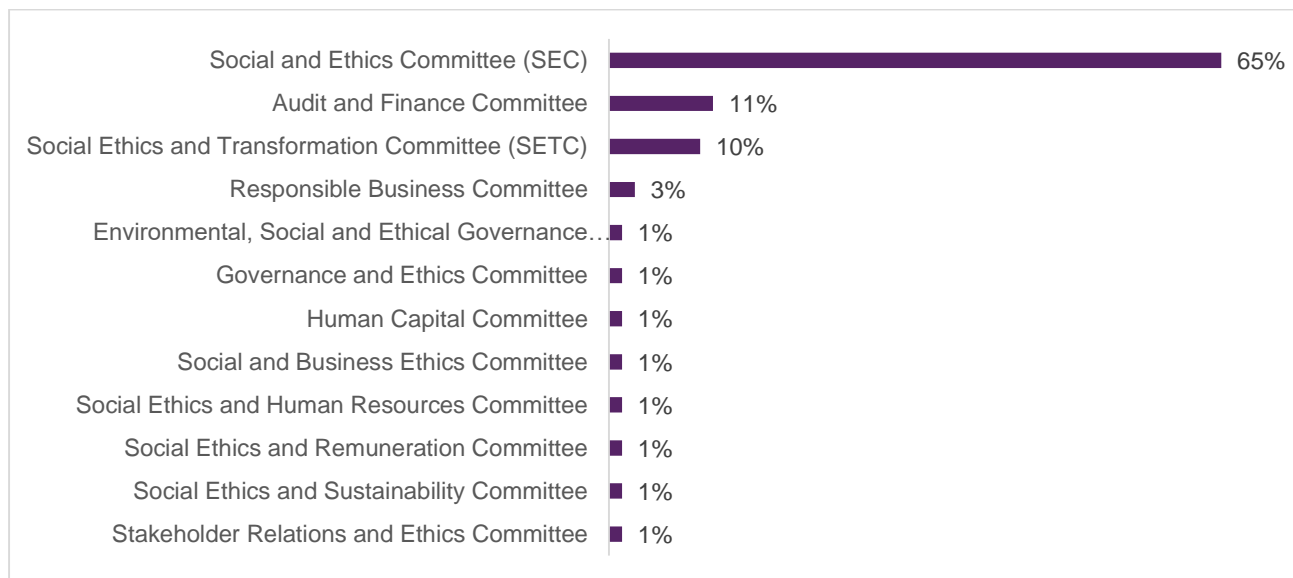


A large segment of the sample group was composed of organisations in the services industry, followed by the banking/finance/insurance sectors and mining, quarrying, energy, oil, and/or chemical sectors. The data was well distributed amongst sectors

## SECTION 2: THE CHARACTERISTICS OF THE SEC

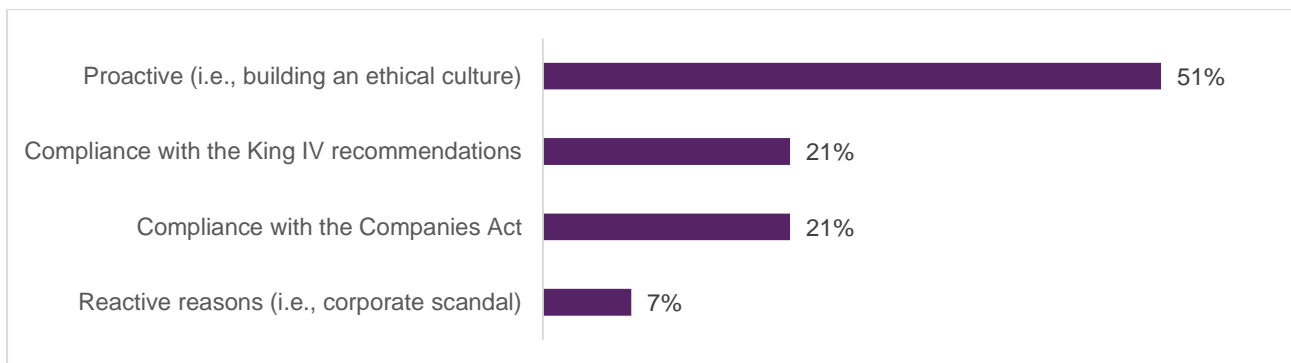
In this section the characteristics of the SEC are presented. Since the research aimed to obtain better insight into the nature of SECs this section explores topics such as the preferred designation of SECs, their reason for establishment, and whether they are standalone committees, to name a few.

### 2.1 Name/Designation of the SEC



The most used designation by SECs is “Social and Ethics Committee (SEC)” followed by “Audit and Finance Committee”. Regarding Audit and Finance Committee, it may be that the SEC responsibility is delegated to this board committee. The “Social, Ethics, and Transformation Committee (SETC)” also remains a popular moniker for the SEC. It is encouraging to note the use of the term “Responsible Business Committee”, which aligns with the mandate of the SEC.

## 2.2 The primary reasons for the establishment of the SEC

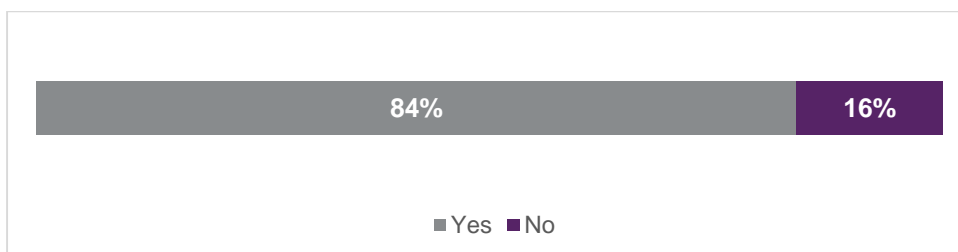


It is interesting to note that most SECs claim that they were established in a proactive manner, with the objective of establishing and fostering an ethical culture in the organisation.

Both compliance-related reasons obtained the same score (14%) and are the second most important impetus for the formation of the SEC. Interestingly, 7% of the sample indicated that they had formed the SEC due to reactive reasons such as a corporate scandal. Although this may seem negative or reactive, it may indicate that organisations are learning from their mistakes.

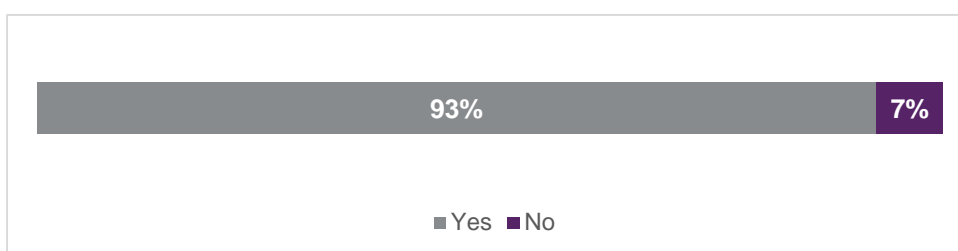
This data bodes well for establishing factors for SECs in South Africa, as more than half the sample indicated a proactive need to establish the SEC.

## 2.3. Is the SEC a standalone committee?



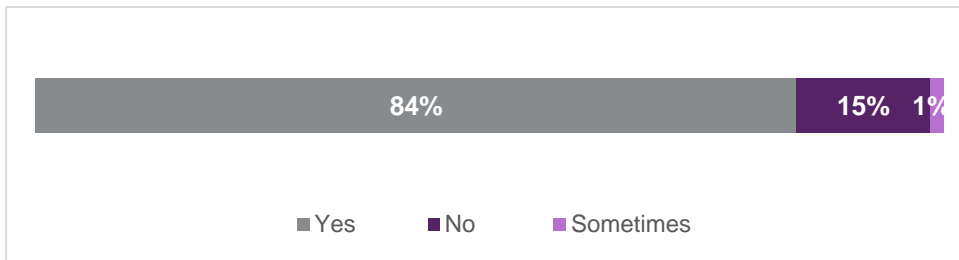
Based on the sample group, most SECs are standalone committees that are not combined with another committee of the governing body. It is however interesting that approximately 16% indicated that they are not a standalone committee but combined with another committee of the governing body.

## 2.4 Does the SEC have an approved 'Terms of Reference'?



Most SECs have an approved 'Terms of Reference' (or 'Charter'). However, it is worrying that 7% indicated that their committee does not have an approved Terms of Reference.

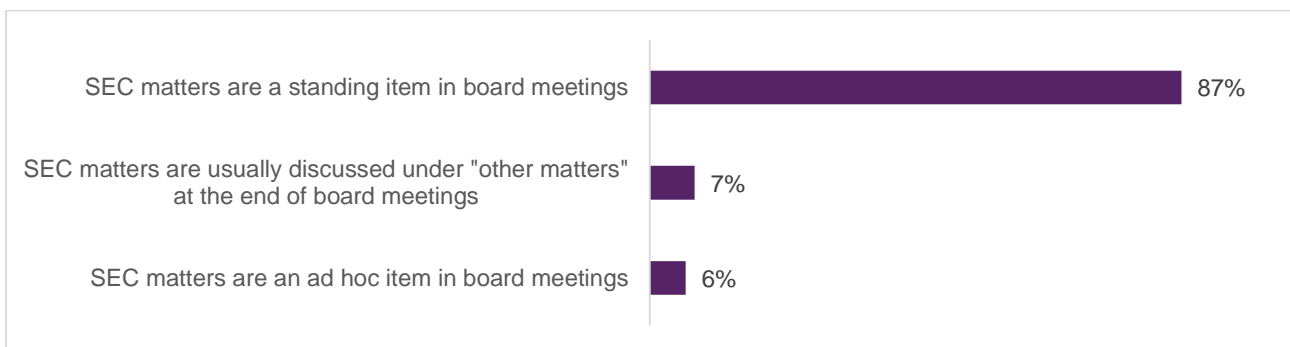
## 2.5 Are reports on organisational ethics management submitted to the SEC?



The results indicated that most SECs do receive reports on organisational ethics management. This is a remarkable finding, since oversight of organisational ethics is not included in the statutory mandate of the SEC (Rossouw, 2018: 34).

Both King III and King IV, however, recommend that governing bodies should govern organisational ethics, which provides a plausible explanation as to why most SECs receive reports on organisational ethics, despite the omission thereof in the Companies Act and Companies Regulations.

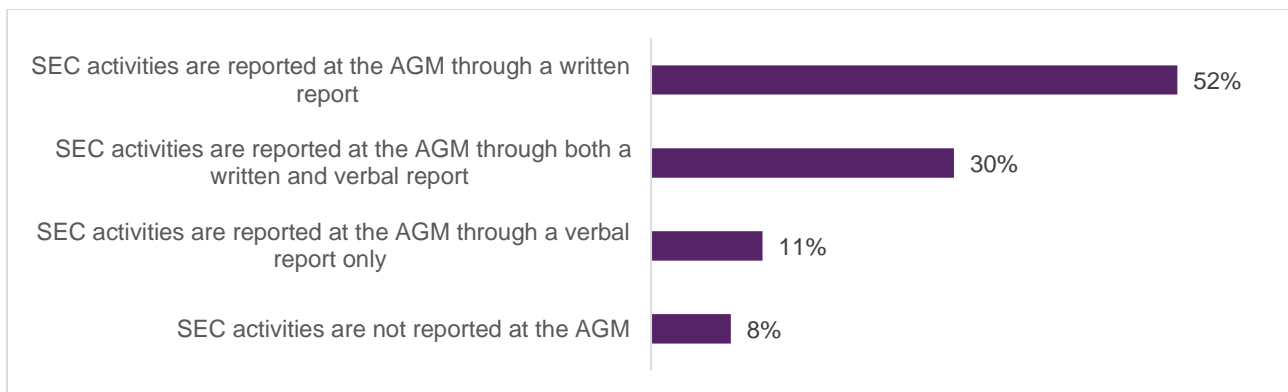
## 2.6 SEC matters on the board agenda



Results indicate that most SEC matters are a standing item at board meetings. This is encouraging and indicates that boards generally take the function of the SEC seriously. More must be done though to remove impediments that may reduce the perceived importance of the SEC.

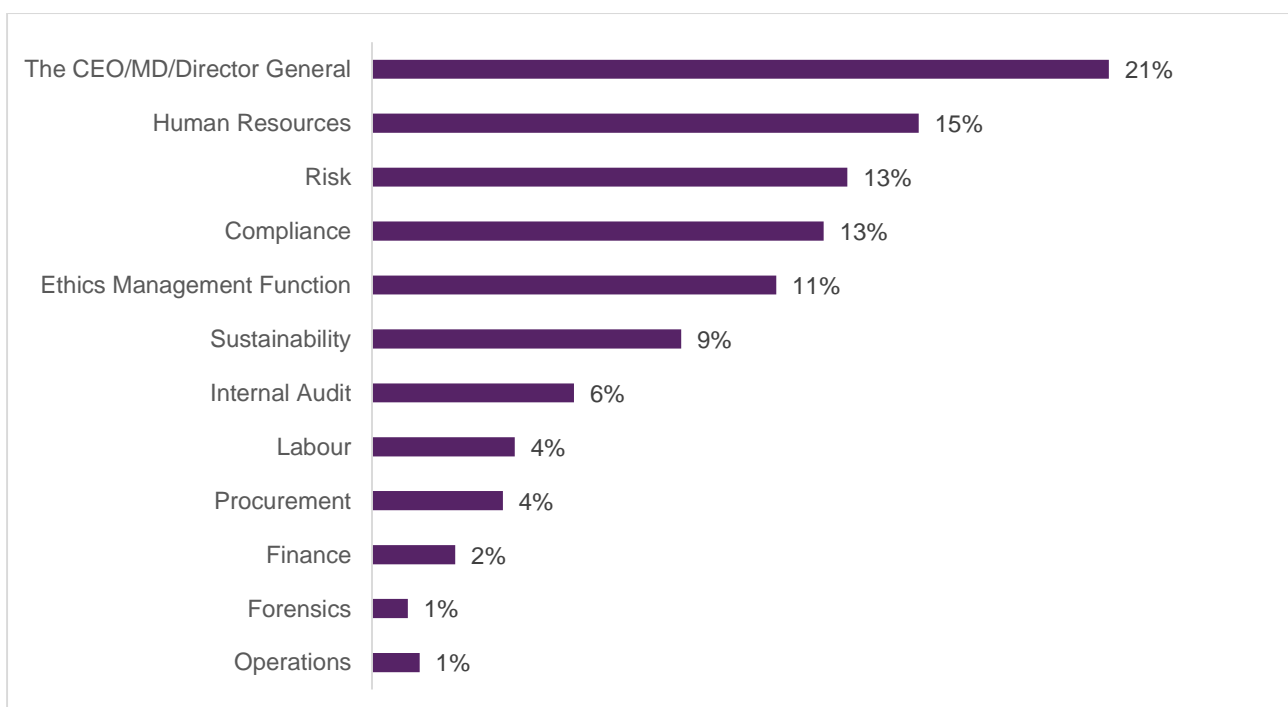
Approximately 11% indicated that SEC matters are either discussed under 'other matters' or as an '*ad hoc*' item.

## 2.7 Reporting of the SEC activities at the annual general meeting (AGM)



The majority of SECs indicated that they report to the AGM mostly in a written format (52%) with some SECs (30%) reporting both in a written and verbal format. This is encouraging and indicates that SEC matters are reported to shareholders or members at AGMs. Only 11% indicated that they report only verbally and 8% indicated that no SEC activities are reported at the AGM. Again, the latter result may be because some SECs are not standalone committees. Consequently, these board committees may include SEC activities under other matters or as part of a more general governance report.

## 2.8 Operational departments/divisions that attend SEC meetings



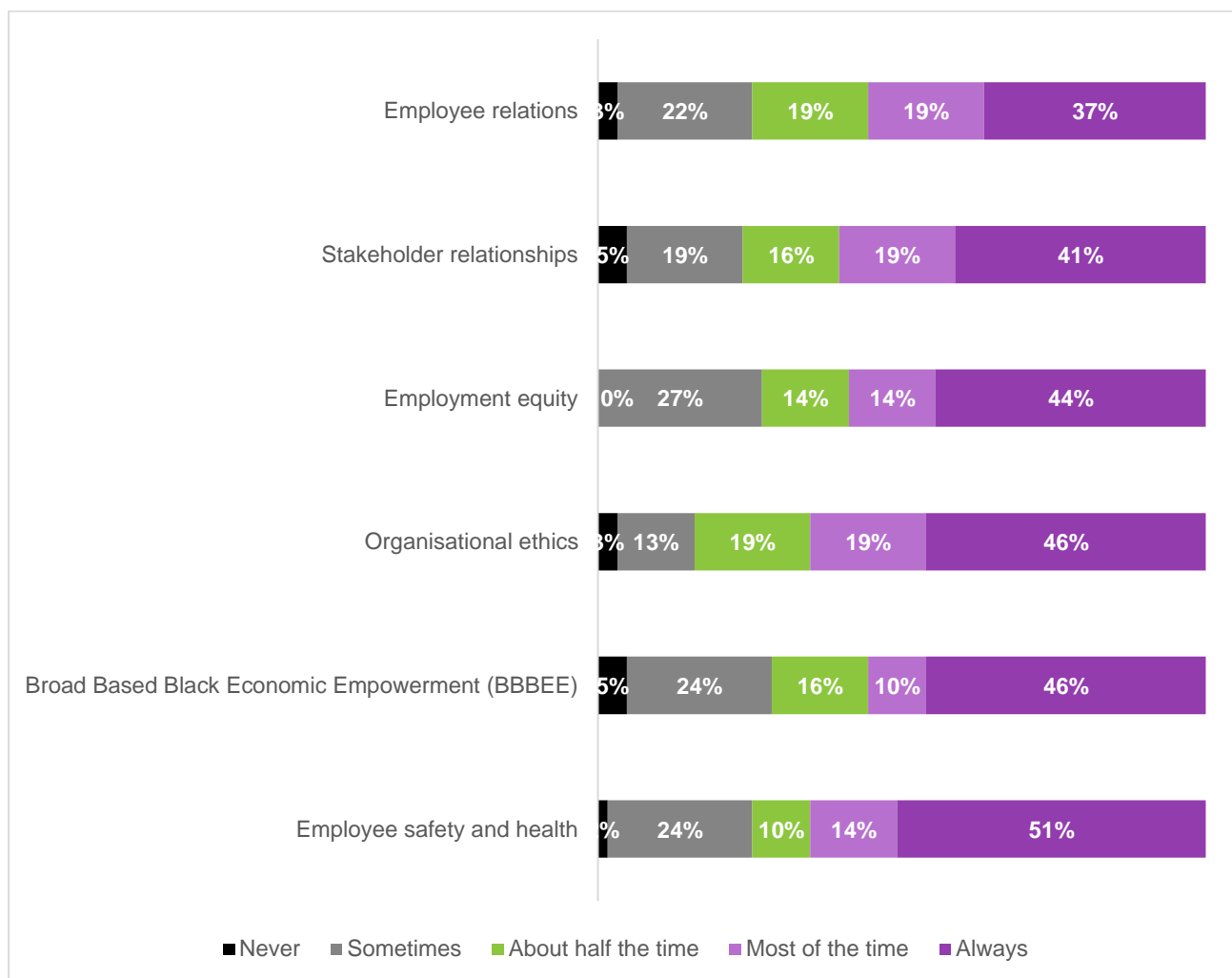
The figure above displays the departments/divisions in the organisation that most often participate in SEC meetings. It can be noted that the Chief Executive Officer/Managing Director/Director General is the most frequent inclusion followed by the human resources, risk, compliance, and ethics management functions.

## SECTION 3: TIME INVESTMENT OF THE SEC

SECs were asked on which issues they spend most of their time and focus. One can assume that these issues are considered priorities by SECs.

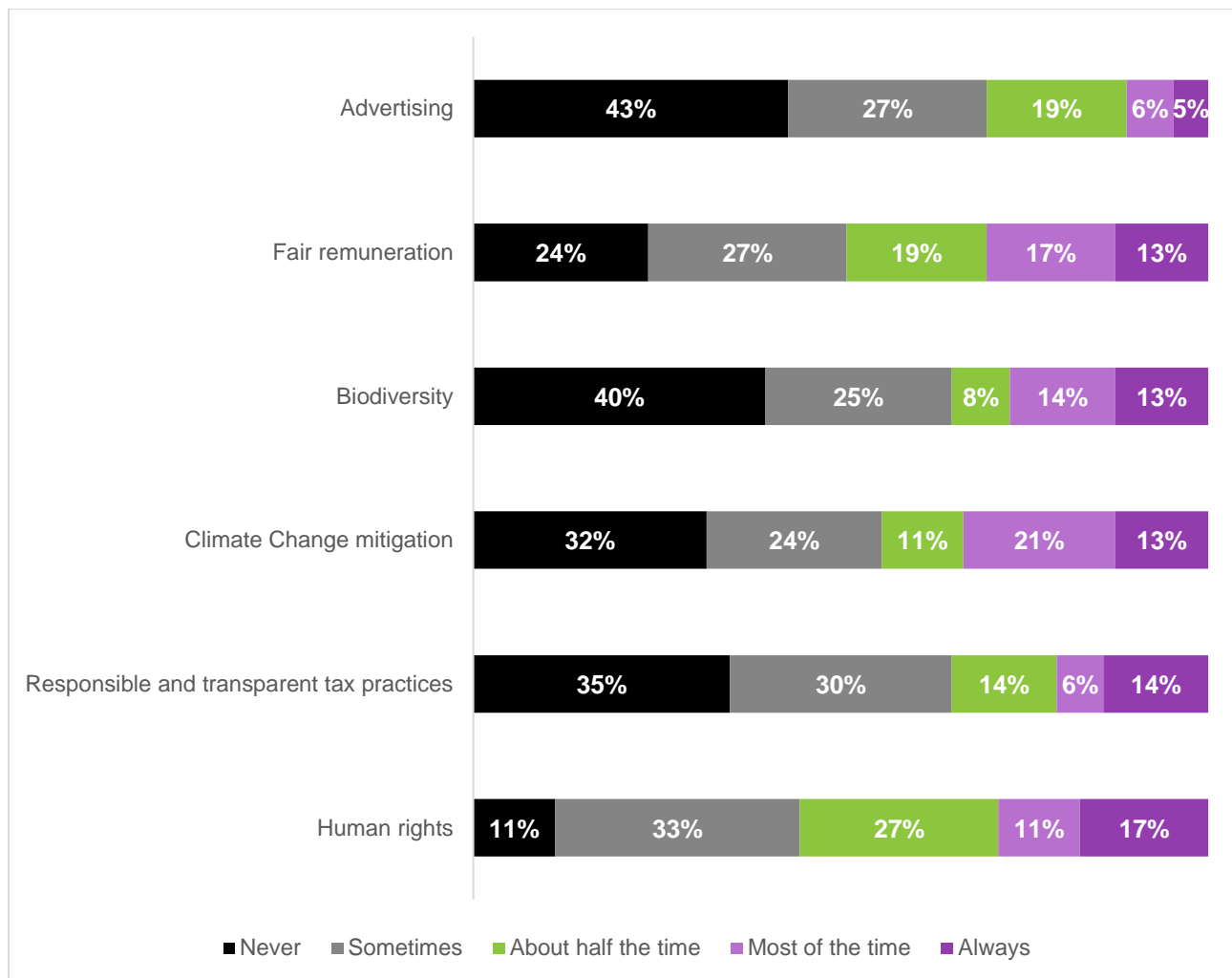
Section 3.1 presents these findings in descending order from the most to the least time spent on certain key issues. The 'Always' category was used as differentiator.

### 3.1. Focus areas on which the SEC spends most of its time



When the “most/all of the time” responses are combined, it can be noted from the figure above that SECs reported that most of their time is spent on employee health and safety (65%), as well as matters related to organisational ethics (65%). Following closely is matters related to BBBEE (56%). Lastly, employment equity, stakeholder relationships and employee relations also make-up a large proportion of the primary priorities of SECs. The primary focus on employee health and safety, might be related to the fact that the survey was conducted amidst the COVID-19 Pandemic of 2020.

### 3.2. Focus areas on which the SEC spends least of its time



When “sometimes/never” responses are combined, the order in which the areas on which SECs invest the least time is as follows: advertising (70%), biodiversity (65%), responsible and transparent tax practices (65%), climate change mitigation (56%), fair remuneration (51%), and human rights (44%).

## SECTION 4: SEC VITAL STATISTICS

This section considers the internal make-up of the SEC and refers to the 'vital statistics' of the SEC such as remuneration and the number of members and other attendees of the SEC.

*Results are presented by looking more closely at the distribution of the sample. The average (or mean) is used to understand the overall distribution. Please note however that the mean is sensitive to large and small numbers (i.e., outliers) in the distribution. For this reason, the median is also indicated, which is the centremost point in the distribution. The median indicates the point where there is an equal number of results below and above the median number. The median, unlike the average is not sensitive to extreme scores (i.e., outliers) and is often a better measure of central tendency. In addition, we also present the range of the dataset by including the maximum and minimum value for each statistic (i.e., data distribution).*

### 4.1 SEC Vital statistics

Vital statistic information	Average	Median	Lowest	Highest
How many committees do you serve on?	3	3	1	10
How many board committees do you chair?	1	1	0	4
What is your annual remuneration (cost to company per annum) for the SEC chairperson	R208 052	R60 694	R0	R2 508 000
How many members does your SEC consist of?	5	5	2	12
How many members of your SEC are Non-Executive Directors?	3	3	0	7
Please indicate the number of invitees who attend the SEC (non-members)	4	3	0	14
How often does the SEC meet per year (12 months)	4	4	1	12
How often are reports on ethics management submitted to the SEC per year?	3	3	1	12
When was the last time the SEC Terms of Reference was reviewed?	2019	2020	2014	2020

It can be noted from the results in the table above that the chairperson of the SEC serves on approximately three committees on average. In addition, most chairpersons only chair one committee on average.

In terms of annual remuneration most SEC chairpersons earn on average R208 052 per annum. This compares favourably with the averages for large and medium organisations in the Non-Executive Director category which were listed by the Non-Executive Directors' Fees Guide (7th Ed) published by the IoDSA in 2020.

The average remuneration for Non-Executive SEC chairpersons for large organisations according to this guide was R234 656 per annum. For medium sized organisations this was R151 752 per annum. As the sample in this report was mostly composed of SEC chairpersons of large and medium sized organisations (67%) these averages compare favourably to the data gathered from SEC chairpersons in this report.

In comparison to other board committees, the average remuneration per annum across all organisational levels for committee chairpersons, was as follows:



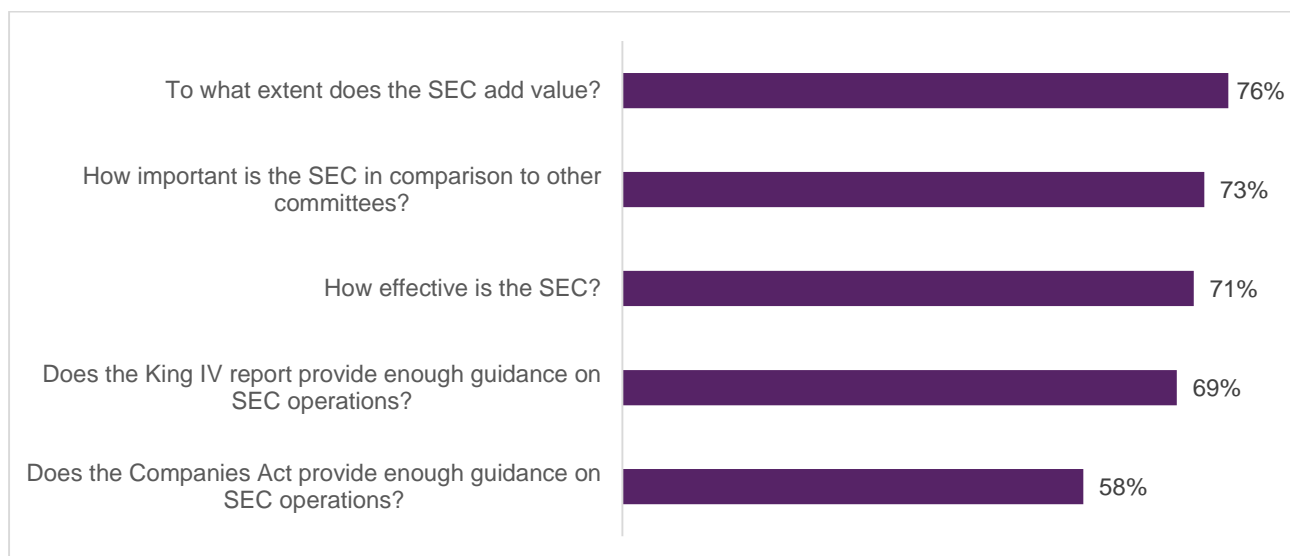
- Board – R2 007 946 per annum;
- Audit Committee – R332 470 per annum;
- Nomination Committee – R162 609 per annum;
- Remuneration Committee – R226 852 per annum;
- Risk Committee – R301 531 per annum;
- Other miscellaneous committees – R231 124 per annum.

With these averages in mind it can be noted that in this survey, SEC chairpersons are remunerated less on average in comparison to the chairpersons of most other committees.

Most SEC chairpersons indicated that the SEC is composed of an average of five members of which an average of three members are Non-Executive Directors. Additionally, most SECs receive about three reports from the ethics management function per year. Most SEC chairpersons indicated that on average the terms of reference of the SEC was reviewed in 2019 (about every year or less).

## 4.2 The impact and mandate of the SEC

In addition to the vital statistics of the SEC that provide us with an overview of the nature of SECs operating in the South African environment, the survey attempted to evaluate the clarity of the mandate and the impact that the SEC makes in the organisation. This was accomplished by asking the chairperson of the SEC to provide their perceptions on a rating scale from 1 to 10.



There was general agreement that the SEC adds value and that the SEC is viewed as important in comparison to other committees. However, there was much less agreement (only about half of the sample) that the Companies Act provides enough guidance on SEC operations. Additionally, just more than two thirds of the sample agreed that King IV provides enough guidance on SEC operations. This may indicate the need for further guidance on the mandate and responsibilities of the SEC.

## SECTION 5: MANDATE CHALLENGES AND IMPEDIMENTS

This section considers comments made by chairpersons of SECs to identify factors that result in mandate challenges and internal operational impediments faced by the SEC. This data was collected as open-ended comments provided by the respondents. This data was then evaluated using a thematic analytic technique to extract 'mandate challenges' and 'impediments of operation' for SECs.

### 5.1. Mandate challenges faced by SECs

A total of 52 discrete response units were obtained from the 75 respondents who completed the survey. These response units were integrated into recurring themes. The relative importance of these themes can be viewed below on a 10-point scale. Each chairperson was asked to indicate the primary challenges faced in regards to the SEC's mandate.

Theme descriptor	1	2	3	4	5	6	7	8	9	10
Lack of transformation (BBBEE challenges).	●	●	●	●	●	●	●	●	●	●
Health, safety, and environmental management.	●	●	●	●	●	○	○	○	○	○
Corporate social responsibility.	●	●	●	●	●	○	○	○	○	○
Corruption, fraud and unethical behaviour.	●	●	●	●	○	○	○	○	○	○
Unclear scope/guidelines provided in legislation.	●	●	●	○	○	○	○	○	○	○
Globalisation.	●	○	○	○	○	○	○	○	○	○

It can be noted from the data presented above that the most pertinent mandate challenge faced by SECs is a lack of transformation in the organisations in which the SEC operates. This relates to aspects such as employment equity and BBBEE targets set forth in legislative requirements, such as, the Employment Equity Act and the Broad-based Black Empowerment Act. Health, safety, and environmental management also made up a substantial theme in terms of mandate challenges which is to be expected during the COVID-19 Pandemic. Corporate social responsibility also takes up a significant proportion of the mandate challenges faced by organisations followed closely by issues related to corruption, fraud and unethical behaviour internal to the organisation.

## 5.2. Impediments to the functioning of the SEC

A total of 161 discrete response units were obtained from the 75 SECs who completed the survey. These response units were integrated into ten (10) recurring themes. The relative importance of these themes can be viewed below on a 10-point scale. Each chairperson was asked to indicate the primary impediments faced by the SEC.

Theme descriptor	1	2	3	4	5	6	7	8	9	10
The role/mandate of the SEC is not understood.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
SEC is seen as unnecessary.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Agenda is too broad/meetings too short/infrequent.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Lack of commitment from SEC members.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Members not appropriately qualified/educated.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Insufficient funding/budget.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Too heavily focused on compliance.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A lack of quality and on-time reports from management.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Insufficient board/EXCO buy in and support	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Overlapping with other functions.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

In addition to mandate challenges, the respondents were surveyed as to what factors act as internal impediments to the functioning of the SEC. The majority of respondents indicated challenges to the functioning of the SEC included the fact that the role and mandate of the SEC is not well understood by organisations and its senior leadership. Additionally, chairpersons of the SEC also indicated that employees, and sometimes members of the SEC, are unclear as to the mandate of the SEC based on best practice guidelines and legislation.

Additional major impediments to the functioning of the SEC include: the SEC being seen as unnecessary in the organisation; the agenda of the SEC being too broad and meetings being too short or infrequent to provide effective direction and oversight; and a general lack of commitment from SEC members to make a meaningful difference to the organisation.

## SECTION 6: RECOMMENDATIONS

It should be recognised that the SEC is still a relatively young governance structure, and it is therefore no surprise that it suffers the typical teething problems of newly introduced governance structures. The survey, however, revealed that the SEC attained a remarkable level of maturity, despite the fact that it only became mandatory a mere 8 years ago on the 1st of May 2012. Despite the maturity attained, the findings of this survey indicate that several developmental challenges remain for the SEC.

Specific areas of development for the SEC include the following:

- Reconciling the statutory role and mandate of the SEC with the King IV recommendations on the role and mandate of the committee;
- Enhancing the status and legitimacy of the SEC by linking the mandate of the SEC to organisational strategy, performance and sustainability;
- Clarifying the relationship, interaction and collaboration between the SEC and other board committees;
- Prioritising environmental responsibility and climate change on the agenda of the SEC;
- Ensuring that the SEC moves beyond a compliance approach to its mandate to taking responsibility for the governance of social and ethics performance of organisations;
- Linking reporting by the SEC to integrated reporting; and
- Enlarging the role of the SEC in providing combined assurance on the social and ethical dimensions of organisational reporting.

It is important to realise that simply providing more guidance will not suffice to overcome the above-mentioned developmental challenges of the SEC. An entire ecosystem of governance role players is needed to overcome the efficiency and legitimacy deficit that most SECs seem to suffer from. Important role players in this regard are research and educational institutions, corporate governance training providers, institutional investors, and advocates of good corporate governance.

There is no doubt that the SEC can play an ever more influential and prominent role in advancing ethical conduct and responsible corporate citizenship if the above developmental challenges can be successfully addressed. In the 8 years since the SEC arrived on the corporate governance scene, it has already started changing boardroom conversations. The SEC can substantially contribute to the four positive outcomes of good corporate governance as articulated in King IV, namely:

- Cultivating an ethical culture;
- Sustaining good performance;
- Creating an effective control environment; and
- Enhancing the legitimacy of organisations.

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# Notes

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## HOW CAN WE HELP YOU?

Individual Services	Corporate Services	Thought Leadership
<ul style="list-style-type: none"><li>- IoDSA Membership</li><li>- NED Vacancies</li><li>- Director Certifications</li><li>- Individual Director Development Programmes</li></ul>	<ul style="list-style-type: none"><li>- Customised Board Development Programmes</li><li>- Board Performance Evaluations</li><li>- Governance Advisory Services</li></ul>	<ul style="list-style-type: none"><li>- King Reports and Practice Notes</li><li>- General Board Guidance</li><li>- Board Committee Guidance</li><li>- Research Projects</li></ul>

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