

COMPLIANCE WITH BEST PRACTICE GOVERNANCE PRINCIPLES OF SOUTH AFRICAN SPORT FEDERATIONS

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ABSTRACT

The heightened interest in sport shown by politicians, legislators, sponsors and government carries with it an inherent demand to justify long-term sustainability as well as compliance with best-practice corporate governance principles. A questionnaire based on the seven pillars of good corporate governance identified in the King II Report (Institute of Directors, 2002) was administered to the universum (n=90) of South African sport federations registered with the South African Sports Commission with the aim of measuring the compliance of these federations with the principles of good corporate governance on a five-point Likert scale. Results indicated an overall mean compliance score (\bar{x}) of 3.77 (maximum of 5.00) with the pillars of good corporate governance but a further detailed analysis of all 83 statements in the questionnaire revealed areas of serious concern regarding the sub-elements of accountability, transparency, social responsibility, independence, fairness and discipline.

Key words: Corporate governance; Pillars of good corporate governance; Compliance; Best-practice governance principles.

INTRODUCTION

The era of professional sport participation and governance has dawned in South African sport. The increased global and local attention sport receives from politicians, legislators, sponsors and government reflects a growing recognition of the importance of sport and the impact it has on society, culture, the economy and politics. This heightened interest, however, carries with it an inherent demand to justify long-term sustainability as well as show the ability to self-regulate (Burger, 2004). The ability to self-regulate is vested in an organisation's compliance with best-practice corporate governance principles. Corporate governance principles as well as their relevance to the sport industry have been debated and justified extensively in literature (Australian Sports Commission, 1999; Reed, 2000; Gaved, 2001; Governance in Sport Working Group, 2001; Rauter, 2001; Institute of Directors, 2002; Naidoo, 2002; Rossouw *et al.*, 2003; Wilkinson, 2003; Burger, 2004).

PROBLEM STATEMENT AND AIMS

The sport industry and especially its governing bodies need guidelines for proper governance and self-regulation due to the increased interest in and [economic] impact of sport. The corporatisation of sport and increased professionalism have brought a need for proper business management and governance models within the sport industry (Australian Sports

Commission, 1999). Common business practices constitute an inherent part of modern day sport due to employment and sponsorship contracts, financial audits, taxation and equity regulations as well as enhanced stakeholder activism. Enhanced stakeholder activism puts pressure on the principle of self-regulation. Unless sport governing bodies can demonstrate an ability to competently and responsibly govern themselves, they run the risk of the legislature issuing legislation that might contain a number of expensive and even cumbersome requirements that will have to be adhered to. South African sport federations' responsibility to enforce and comply with good governance principles has already been emphasised by national government in 2001 (Balfour, 2001). It does, however, seem as if South African sport federations are not yet satisfactorily complying with the best-practice of corporate governance if scandals, conflicts and crises within South African sport (e.g. Boxing, Cricket, Rugby, Softball and Soccer) are taken as benchmarks (Burger, 2004). The aims of this study are therefore to determine the level of compliance with King II's (Institute of Directors, 2002) seven pillars of good corporate governance (best-practices) by South African sport governing bodies and if found lacking to propose recommendations for implementation by national sport federations to achieve optimum levels of compliance with principles of best-practice governance.

RESEARCH METHODOLOGY

Research instrument

A questionnaire based on the seven pillars of good governance as identified in the King II Report on Corporate Governance for South Africa (Institute of Directors, 2002; Naidoo, 2002; PricewaterhouseCoopers, 2003; Rossouw *et al.*, 2003; Wilkinson, 2003) as well as the sport governance principles developed by the Governance in Sport Working Group (2001) was jointly developed by the University of Pretoria's Centres for Leisure Studies and Business and Professional Ethics. The initial questionnaire consisted of 13 biographical questions pertaining to the national federations as well as 83 statements measuring compliance levels with the 18 sub-elements of the seven pillars of good governance (refer to Table 1) on a five-point Likert scale with 1 being strong disagreement and 5 strong agreement. A high mean score (maximum=5) would thus indicate high levels of adherence whilst lower scores (minimum=1) would suggest low levels of adherence. The South African Sports Commission and Sport and Recreation South Africa endorsed the questionnaire. After a pilot study was done at a biennial general meeting of a national sport federation, the second part of the final questionnaire was adapted to 83 statements. Table 1 presents the distribution of the statements ($n=83$) over the 18 sub-elements of the pillars of good governance (Burger, 2004).

Scope of the research

This study is limited to South African national sport federations as defined in the Sports Commission Act 109 of 1998 section 1(x) (South Africa, 1998). National, zonal and local regulatory and macro-bodies overseeing the activities and actions of other sports bodies under their auspices such as the South African Sports Commission, South African Commonwealth Games Association (SACGA), United School Sports Association of South Africa (USSASA), South African Student Sports Union (SASSU), Masters Games Association of South Africa (MGASA) and the National Olympic Committee of South Africa (NOCSA) are excluded.

Disability Sport South Africa (DISSA) is, however, included as the South African Sports Commission considers it a national sport federation.

TABLE 1. PILLARS, SUB-ELEMENTS AND ASSESSMENT STATEMENTS

PILLAR OF GOOD GOVERNANCE	SUB-ELEMENT	NUMBER OF STATEMENTS MEASURING THE SUB-ELEMENTS
Accountability	Accountability of board members	4
	Organisational structure, responsibility and accountability	3
Responsibility	Delineation of responsibilities and roles of board members	4
	Recourse measures and organisational structure	4
Transparency	Transparent disclosure of information	5
	Transparent communication system	6
	Website existence and efficacy	3
Social Responsibility	Social responsiveness	8
	Recognition of broad stakeholder interests	4
Independence	Decisions and actions free from outside influence	5
	Objectivity of decisions	4
	Decision and appeals procedure	7
	Handling of conflicting interests	4
Fairness	Fairness in representation on board	5
	Democracy, elections and appointment procedures	10
	Solidarity with stakeholders	2
Discipline	Disciplined commitment to governance	4
	Ethics policy	1
		<i>n</i> =83

Research sample

Questionnaires were distributed to the universum of registered national sport federations ($n=90$). A response rate of 23.33% ($n=21$) federations and 36 questionnaires was obtained making the results valid (Thomas & Nelson, 1996). National sport federations could complete more than one questionnaire. Unresponsive federations were reminded by electronic mail but this yielded no further completed questionnaires.

Statistical interpretation of results

Descriptive statistics were used to interpret data and mean scores and frequencies for each pillar of good corporate governance were calculated.

RESULTS AND DISCUSSION

Respondent profile

The majority (44.44%) of respondents were members of the sport federation's executive or management board followed by full-time employees (33.33%). Ordinary members (registered coaches, officials, participants and trainers) constituted 16.67% and part-time employees 5.56% of the respondent profile. The average number of members per respondent federation amounted to 52 964.71 in a membership band between 300 and 700 000 whilst the average number of regional associations per national federation amounts to 10.62 within a band of 0-30. The mean governing board size of the respondent federations was 10.29 in a band between 4 and 25. The majority of the respondent federations (23.81%) indicated an executive board size of between five and seven members which is in accordance with the suggestions of Rauter (2001) on efficient governing board size.

Pillars of good governance

A key aspect of best-practice governance is adherence to the pillars of good governance (Institute of Directors, 2002; Naidoo, 2002; PricewaterhouseCoopers, 2003; Rossouw *et al.*, 2003; Wilkinson, 2003). Table 2 presents a summarised overview of the mean values (\bar{x}) of compliance for sub-elements, pillars of governance and the overall frequency (%) of non-adherence to good governance. It does not fall within the limited length of this article to present the mean value for each of the 83 statements but detailed results of each of the 83 statements are given in Burger (2004).

Accountability

From Table 2 it seems as if sport federations adequately ($\bar{x}=3.96$) comply with the overall pillar of accountability, yet the detailed recorded responses indicate that in 16.67% of cases management of federations does not assume accountability for failed actions. Non-compliance with accountability was perceived as resulting from unclear lines of accountability, blame-shifting, not assuming accountability for financial success or failure, lack of formal hierarchical structures for accountability and management failing to answer queries as a result of shifting or negating accountability. Although the non-compliance rate (16.86%) seems low, authors (Van Heerden, 2001; Naidoo, 2002; PricewaterhouseCoopers, 2003) warn seriously against the cascading impact of even the slightest level of non-compliance in this regard. Providers of funds are placing ever-higher emphasis on the responsible and accountable management of funds. Adherence to the benchmarks of accountability is imperative to help reduce potential liability and limit future risks, elements that form the basis of long-term sustainability and good governance.

Transparency

From the results in Table 2, it can be concluded that the measure in which management makes appropriate information available in a candid, accurate and timely manner (transparency) is perceived to be inadequate in 18.00% of the recorded responses. Failure to disclose information hampers a federation's ability to attract outside funding (Van Heerden, 2001). Respondents have indicated that 22.86% of all information is not disclosed to members as it is deemed confidential. Even though sports federations are traditionally membership associations with a composition different to that of commercial enterprises (Gaved, 2001) and there is always a need for confidentiality, this non-compliance rate is worrying given that membership associations are owned and indirectly governed by members through a system of representation. This implies a right to be informed on all matters. Communication is a key element in establishing legitimacy for a governing body (Gaved, 2001; Rauter, 2001). Direct and open communication systems were perceived as lacking in 17.14% of responses. Website efficacy is regarded as an indicator of transparency (Governance in Sport Working Group, 2001). The detailed analysis of the results obtained in this sub-element (Burger, 2004) indicated that information relating to federation finances and management matters was available in 54.54% of cases and that in 50.01% of the responses was information pertaining to day-to-day managerial matters available on the website. When the latter results are interpreted in conjunction with the reported 75.00% of regularly updated-websites, it seems as if federations are failing to include information relevant to the requirements of the principle of transparency.

Responsibility

The overall mean ($\bar{x}=3.74$) recorded for adherence to responsibility is lower than the recorded value for accountability. This finding was anticipated given the non-compliance rate of accountability and the causal relationship between accountability and responsibility (Naidoo, 2002). The detail analysis of each of the sub-elements of responsibility revealed that the formalisation of roles and responsibilities of governing bodies was lacking (20.00%), inadequate organisational structures (22.86%), missing contingency plans (20.00%) and selected responsibility towards member groups (20.00%). Inadequacies pertaining to responsibility would obviously impact negatively on governing bodies' willingness and ability to institute actions to realign with chosen strategic courses (Institute of Directors, 2002; Naidoo, 2002). Table 2 recorded an overall non-compliance of 20.22% with the governance principle of responsibility. This finding implies that, in the event of mismanagement, members of the federation have limited recourse to ensure the future sustainability of the federation (Rauter, 2001; Rossouw *et al.*, 2003). It is imperative that the physical structuring of the governing body allows for the institution of corrective actions as well as penalisation of mismanagement (Naidoo, 2002). The perceived inadequate organisational structures, selected responsibility towards member groups and missing contingency plans should therefore be areas of concern for sport governing bodies.

Social responsibility

A socially-responsive and responsible national sport federation is perceived to be non-discriminatory and non-exploitative with regard to environmental, social and human rights issues (Post *et al.*, 2002). Respondents indicated that 20.00% of respondent federations are perceived not to have a well-defined view of their social responsibility. Failure to deal with

issues of social responsibility will have economic and financial implications (Institute of Directors, 2002; Ward *et al.*, 2002) but results (Burger, 2004) nevertheless indicate that federations are oblivious of this reality given that 25.71% of respondents do not believe that human rights and environmental issues (as sub-elements of social responsibility) may impact on the sport federation economically.

TABLE 2. MEAN VALUES FOR SUB-ELEMENTS AND PILLARS OF GOOD CORPORATE GOVERNANCE (N=36)

PILLAR OF GOOD GOVERNANCE	SUB-ELEMENT	MEAN (\bar{x}) FOR EACH SUB-ELEMENT	MEAN (\bar{x}) FOR EACH PILLAR	NON-ADHERENCE %
Accountability	Accountability of board members	3.91	3.96	16.86
	Organisational structure, responsibility and accountability	4.02		
Responsibility	Delineation of responsibilities and roles of board members	3.66	3.74	20.22
	Recourse measures and organisational structure	3.82		
Transparency	Transparency of policy statements	3.92	3.84	18.00
	Transparent communication system	3.86		
	Website existence and efficacy	3.66		
Social Responsibility	Social responsiveness	3.84	3.91	19.48
	Recognition of broad stakeholder interests	4.03		
Independence	Decisions and actions free from outside influence	3.81	3.72	22.78
	Objectivity of decisions	3.81		
	Decision and appeals procedure	3.69		
	Handling of conflicting interests	3.56		
Fairness	Fairness in representation on board	3.75	3.65	27.06
	Democracy, elections and appointment procedures	3.51		
	Solidarity with stakeholders	4.06		
Discipline	Disciplined commitment to governance	4.15	3.54	14.72
	Ethics policy	2.93		

Independence

Independence is measured in terms of four sub-elements: freedom from outside influences, objectivity of decision-making, independence of decisions and appeals and conflict handling procedures. Results indicate that in 27.78% of cases, situations arise in respondent federations where conflict of interests occurs as a result of outside influences (Burger, 2004). Outside

influences may manifest themselves in political demands sponsors' requirements, media rights, broadcasting scheduling, affirmative action guidelines, human rights and even environmental demands. The National Sport and Recreation Act 110 of 1998 (South Africa, 1998) prescribes the inclusion of conflict resolution measures in the constituencies of sports federations yet 22.86% of respondents perceived such measures as being totally absent, 22.22% not readily accessible and 25.00% as insufficient (Burger, 2004). These results would undoubtedly impact on the objectivity and fairness of decisions as well as the overall credibility and legitimacy of sport governing bodies. An overall non-compliance rate of 22.22% regarding independence should be another area of concern as insufficient independence results in decreasing trust (Australian Sports Commission, 1999; Governance in Sport Working Group, 2001; Rossouw *et al.*, 2003).

Fairness

An overall mean value of $\bar{x} = 3.65$ was recorded for compliance with fairness as pillar of good governance. From Table 2 it is also evident that the non-compliance rate of 27.06% is the highest in comparison with the other pillars of good governance. Fairness, as reflected in equitable treatment of all stakeholders, was not perceived in 44.12% of the responses. The ongoing debates and controversies regarding quota systems in South African sport are probably the visible justification of this finding. The dilemma of outside political influence on team selections thus seems to contradict the principle of fairness. According to the Australian Sports Commission (1999) a sport governing body's board has a moral obligation to consider all matters on the basis of equity and transparency and in the interests of the sport as a whole and not given preference to any one or more stakeholder groups. The Governance of Sport Conference Report (Governance in Sport Working Group, 2001) has stressed that no ambiguity should exist in terms of voting rights and eligibility of members. Members should elect to office their choice of representatives by means of democratic election. Yet results (Burger, 2004) indicated that in 31.43% of the recorded responses details of nominated individuals were not disclosed in a transparent and timely manner. Similarly 42.86% of respondents perceived irregularities in the election procedures since vetting processes to assess the accuracy of the *curriculum vitae* of nominated individuals were absent. This might lead to situations where skills, abilities and qualifications to fulfil the necessary functions cannot be validated in a transparent and independent manner. The findings also indicated that the serving term of board members is fixed in only 42.85% of the cases and that only 25.71% of federations have documented the duration of the serving term, in contradiction to the guidelines proposed by the Governance in Sport Working Group (2001) which contends that all governing positions must be subject to a fixed term of office which the relevant period should be set out in writing, Non-adherence to these guidelines ultimately impacts on the validity and fairness of elections.

Discipline

Discipline implies the continuous commitment by management to adhere to all principles of good governance (Australian Sports Commission, 1999; Kikulis, 2000; DiPiazza, 2002; Institute of Directors, 2002). The detailed analysis of the respective sub-elements of discipline indicates that 13.89% of sport federations are not committed to the principles of good governance and 20.15% of federations do not consistently enforce good governance (Burger, 2004). If management does not continually promote and advocate good governance principles, it is reasonable to expect less than acceptable levels of best-practice governance. It was further

recorded that 55.56% of respondents were aware of the existence of an ethics policy. Unfamiliarity with such a document might indicate either a lack of enforcement of guidelines or principles contained in such a document or an overall lack of adherence to established and/or required guidelines of ethical behaviour throughout the organisation. This might, in turn, manifest in insufficient promotion of principles contained in such a document or alternatively a complete absence of such a document. Non-adherence to or non-existence of an ethics policy might be the first step towards unfair and discriminatory practices as well as decreased social responsibility. It is evident that sport lags behind the corporate business environment where 75.00% of corporate companies adhere to the requirement of a documented ethics policy (Brand, 2003). Disciplined commitment to the principles of good governance is also influenced by the size of the governing board (Rauter, 2001). Results indicate that 71.43% of sport governing bodies exceed the size of five to seven recommended by Rauter (2001). Board sizes in excess of seven members may result in a "lost board" situation that impacts on the decision-making efficiency of the said board (Rauter, 2001: 3).

CONCLUSIONS AND RECOMMENDATIONS

Given the results discussed above, it can be argued that South African sport still has some way to go before being regarded as fully compliant with the principles of good corporate governance and the needs of modern day professional sport. The plethora of controversies, debacles and sagas in South African sport (e.g. selection procedure for national rugby coach, accusations of racism in rugby, the Hansie Cronje investigation in cricket, political involvement and prescriptions in team selections, suspension of national soccer coach, controversies in NOCSA, fraud charges and subsequent convictions of boxing officials) are symptomatic of insufficient adherence to the principles of good corporate governance. A combined overall compliance rate of 3.77 for all seven pillars of good governance might seem satisfactory at first glance. However, the possible biased influence of members of executive or management boards (as formulators and implementers of good governance principles) on the mean value of each pillar must be noted as 44.44% of respondents could be classified in that group. When, however, it is taken into account that 75.00% of South African sport federations demonstrate best-practice corporate governance, it becomes evident that, if South African sport wants to claim professionalism and credibility in the business environment, it will have to take pro-active and dedicated action to ensure that the principles of flexibility and self-regulation remain unchallenged and the principles of best-practice corporate governance are instilled. Sport governing bodies are subject to increasing levels of performance scrutiny. In responding to these challenges, the following definite areas of governance improvement must be addressed:

Not all sport governing bodies share the same business model or governance structure and the adoption of one single model is not feasible. However the need to conform to a structure that allows for the clear delineation of accountability and responsibilities of the respective office bearers is non-negotiable irrespective of the business model or physical structuring of the sport governing body. For the sake of clarity in accountability and duty, this structure should be clearly documented and disclosed to all members and legitimate stakeholders. Doing so lessens the possibility of overlapping and gaps in power and accountability as well as responsibility abdication by members of management.

There should be a clear separation of powers and duties between the governing role and the managing role of the governing body.

Governing board size and available positions on the board should be based on skills and not on representation. Through a democratic, fair and transparent process, sports federations should have access to individuals with skills best suited to the strategic intent of the organisation so as to ensure long-term sustainable profitability and growth and appointments should not be based on a system of representativity. The board should, of course, be broadly reflective of its key stakeholders but not at the expense of board skills mix. When members do represent a constituency they must never allow representation to become advocacy at the expense of the organisation as a whole.

Members of the governing body should serve according to a staggered rotation system with a maximum serving term to ensure board renewal whilst retaining corporate memory.

The ultimate power to govern a sport federation is vested within, and directly or indirectly exercised through a system of representation by members of the sport federation. In theory elected members are the representatives of the members decided upon through majority vote. To ensure that this remains true, elections and election procedures must be free and fair. There should be no ambiguity in terms of nominating procedures, voting rights and eligibility of members.

All sport federations should give immediate attention to codes of ethics. Such codes should clearly address two main areas of concern namely managerial mischief (illegal, unethical or questionable practices) and moral mazes (daily ethical dilemmas with regard to corruption, bribery, dishonesty, potential conflicts of interest, wrongful use of resources, mismanagement of contracts and agreements of financial interest).

Independent, rotating external auditors are cardinal to good corporate governance.

Given the uniqueness of sport, and even more so the unique composition and situational factors presented to each individual sport governing body, it is not possible to build a single uniform model of best-practice governance. Sport and its constituents must, however, assume the responsibility to adhere pro-actively to higher levels of compliance through the development of governance systems and structures based on the pillars of best-practice governance.

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