MEMORANDUM ON THE GOOD GOVERNANCE ACADEMY'S SECOND COLLOQUIUM

EFFECTIVE CORPORATE LEADERSHIP

The Second Colloquium of The Good Governance Academy was held on 28 November 2019. As with the first colloquium there was input from universities and business schools on a critical governance issue, namely Effective Corporate Leadership.

The Academy aims to hold at least two colloquia per year and provide attendees with exposure to current critical governance issues. Speakers from around the world will present thought provoking content and engage attendees to discuss the practicalities of these matters. The Academy aims to ensure that the best of thought leadership is imparted to educators and influencers for the benefit of future corporate leaders.

The second colloquium was themed "Effective Corporate Leadership" and brought together thought leaders in this area. The speakers provided the thought leadership context and the attendees were able to ask questions of them. Following these presentations, a panel discussion was held, inviting questions from the audience.

The theme of the colloquium was based on the premise that the company is an artificial, incapacitated person and that its mind and conscience is that of its individual corporate leaders. The essential question in our resource constrained world is whether these individual corporate leaders are steering the business of the company to be at the junction of the three critical dimensions for sustainable development, the economy, society and the environment. How the company makes its money is critical in the 21st century. To make a profit but with such an adverse impact on the environment that holistically society is losing value, is not good leadership.

The vision of the GGA is to act as a catalyst between educators internationally so that the Sustainable Development Goals 17 and 4 are achieved. Goal 17 records that the 16 goals cannot be achieved without collaboration and goal 4 is the achievement of quality education. The GGA has support members across the globe and attached hereto marked A is a list of the support members who distributed the memorandum of the first colloquium to over two million of their members.

As with the first colloquium I am confident on the reading of the precis of the presentations that you will learn about effective leadership and be motivated to practise mindful, outcomes based governance and conscious corporate leadership. The attached memorandum of the presentations on effective corporate leadership will be both instructive and informative for you, the reader.

Carolynn Chalmers assisted me in finalising this memorandum on the presentations done at the second colloquium on a voluntary basis. Her bio is attached.

I have accepted a professorial appointment at the Wits Business School in Johannesburg with effect from the beginning of 2020. The third colloquium on integrated thinking will be held at the Wits Business School Auditorium.

I record the GGA's thanks and appreciation to Regenesys Business School for making its infrastructure available to make it possible for the two colloquia during 2019 to be held. Without its assistance the colloquia would not have taken place.

Mervyn King
December 2019

The speakers were as follows:

Prof Pedro Tabensky

Allan Gray Centre for Leadership Ethics

Rhodes University

What makes an effective corporate leader?

Prof Jill Atkins

Chair in Financial Management

Sheffield University Management School

Is a company's business model sustainable without considering the risks of climate change and species extinction?

Dr Abhinanda Gautam

Program Head - Postgraduate Studies

Regenesys Business School

What is the difference between transformational and transactional leadership?

Rekgotsofetse Chikane

Wits Business School

Why do corporate leaders derail?
The Need to Embrace Creative Destruction

There was a panel discussion afterwards and the panellists were Annamarie van der Merwe, a well-known company secretary, Leigh Roberts, the chief executive of the Integrated Reporting Committee of South Africa, Athol Williams, a business consultant and senior lecturer at University of Cape Town and Michael Judin, a corporate attorney.

Underneath is a photograph of the speakers and the panellists.

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In his introduction to the Colloquium on Effective Leadership Prof King spoke about the Innocent Company.

The Innocent Company

Prof Mervyn King SC

As humans organized themselves into communities over time and started trading, so organizations emerged. By the middle of the 19th century organizations were well established and operated with unlimited liability. This means that the owners of an organization were personally liable for all the debts incurred by the organization. This was clearly not ideal, so was born the concept of the organization as another "person", an artificial, incapacitated person, with limited liability.

This met with opposition. It was Lord Thurlow, in 1844, who said "Corporations have neither bodies to be punished nor souls to be condemned:" Lord Thurlow was correct, because a company is an artificial person which has no heart, mind, soul or conscience of its own.

Directors, once appointed, become the heart, mind, soul and conscience of the company

This understanding gives content to the development from the 19th century of the common law fiduciary duties of directors to a company, of good faith and loyalty as well as duties of care, skill and diligence. Those are exactly the duties of the guardian of an incapacitated young human being. The common denominator is incapacity.

A company, therefore, is an incapacitated, artificial person without a conscience. It is animated by its corporate leaders. If the corporate leaders are not conscious ones and do not appreciate that they are the heart, mind, soul and conscience of the company, the company may be seen to not be a good corporate citizen.

During the 20th century the dictate was the primacy of the shareholder. This followed the Ford Motor Company case and the thesis of Milton Friedman that the sole purpose of a company was to **make profit without deception or fraud**.

This led to unsustainable development in the 20th century and eventually, by 1997, through expedited research as a result of the computer age of the 70's, it was established that we had reached ecological overshoot. In other words, companies were using natural assets faster than nature was regenerating them.
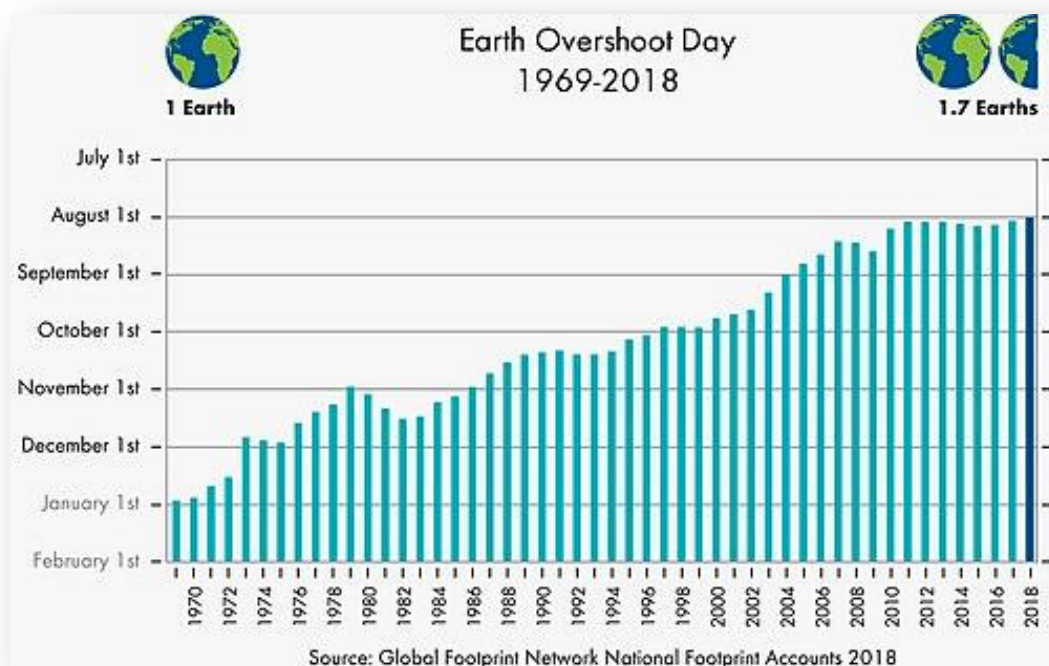
Companies were seen to be polluting the earth and society berated the companies.

The company, of course, being incapacitated was innocent. It was its **corporate leaders** that lacked the conscience to direct the business of the company to be at the junction of the three critical dimensions for sustainable development, the economy, society and the environment.

Profit has been replaced by a value creation process but in a sustainable manner and corporate leaders need to be conscious of acting in the best interests of the long term health of the company and not focused on increasing the wealth of shareholders, to quote Prof Lynn Paine of Harvard .

When something goes wrong or when the business model is such that there is an adverse impact on the environment, it is the leaders who animate the company who should be criticized. The company remains an incapacitated, artificial and innocent person.

Consequently this second colloquium was about Effective Leadership where we discussed:

- What should be contained in the business model in today's resource constrained world with increasing population;
- Why do corporate leaders derail;
- The ethics of corporate leaders; and
- The difference between transactional and transformational leadership.

Whether the company is or is not seen to be a good and responsible corporate citizen depends
on the conduct of its individual corporate leaders.

What makes an effective corporate leader?

Prof Pedro Tabensky

First we need to ask: What are we actually inquiring about when inquiring about an effective corporate leader? Then secondly, what, more specifically, does being effective consist of?

It is clear that Elizabeth Holmes, one of the youngest billionaire in history and founder of bogus company Theranos, is not who we should be thinking of when we consider an effective corporate leader (see https://en.wikipedia.org/wiki/Elizabeth_Holmes).

She was effective to be sure, but in a deeply ethically dubious way.

Ethics is at the heart of our concerns with effectiveness.

The standard picture, built into much of business ethics, is that explicit ethical commitment will lead to ethical action.

Built into this picture, in turn, is that the effective ethical leader is someone who is committed to ethical integrity at the level of belief.

If they are committed to this then the rest will follow. Belief will quite naturally give way to action. That's the standard story.

If that's the standard story, are ethics professors any more ethical than anyone else? No.

So, expertise at a cognitive level does not, on its own, make us more ethically competent.

What then makes us more ethically competent?

Philosophers Eric Schwitzgebel and Joshua Rust show us what we want from an effective corporate leader.

Eric Schwitzgebel (see http://schwitzsplinters.blogspot.com/)

Joshua Rust (see https://philpeople.org/profiles/joshua-rust)

One thing we can conclude from the research of these philosophers is that effective corporate leaders of the sort that we want, namely ethical ones, are not ethical by virtue of their overt commitments.

What we want is something far more subtle, something that I will only be able to hint at here.

Effective corporate leaders not only have the right overt commitments, but they also understand and are able to resist corrupting forces.

Let's explore, with one small example from behavioral economist Dan Ariely.

Behavioural economist Dan Ariely was named in 2018 as one of the 50 most influential living psychologists in the world.

Dan Ariely

(see https://en.wikipedia.org/wiki/Dan_Ariely)

Case Study – Distance from physical act

An experiment done with 12,000 golf players where their golf ball falls 4 inches into the rough:

- Do they pick it up and move it 4 inches? Given the nature of the game, nobody does this.
- Do they kick the ball the 4 inches? Well, there seemed to be no problem with this!
- Do they hit the ball 4 inches with a club? This seemed to be even easier for people.
- Bust easiest of all was shifting the ball with their foot whilst not looking at the ball at all!

Intuitively, picking the ball up is an act which feels deliberate.

Putting a bit more distance between the head and the ball, such as kicking it, brings in a little more ambiguity between the player and the act.

Case Study – Distance from money

The experiment entails
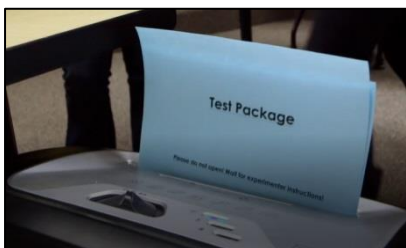
1. Subjects solving problems, marking the answers on question sheets and then shredding these sheets.

2. The subjects then indicate how many problems they have solved and they are rewarded by being given tokens.

3. Then the subject takes the tokens to the next table and picks up cash in exchange.

In this experiment, people doubled their results. The subjects found it easier to lie about the number of plastic tokens, but the tokens translated into money.

This result is very troubling in today's world where we are moving away from money – credit cards, stocks, stock options, derivatives, dealing with people over great distances.

Psychological Distance

Could it be that with the distance increasing between the person and the tangible money, people will find it easier to misbehave and still think of themselves / ourselves as good people?

The answer is absolutely yes!

> We are finding it easier to misbehave and
> still think of ourselves as good people
> in situations of psychological distance

Can a board of directors contend that the business model of a company is sustainable without dealing with the risks of climate change and species extinction?

Prof Jill Atkins

Non-financial matters are actually of critical financial importance. These non-financial matters should be carried into company valuations and the way in which we see value.
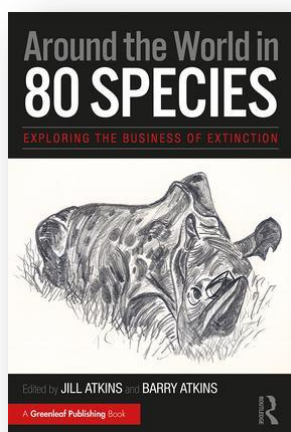
This new book explores "the business of extinctions" and why organizations should be concerned about threats to the environment and account for the company's use of natural capital.

"Extinction, at its current rate, will ensure that financial markets will collapse which will happen shortly before extinction of the human race, if no urgent action is taken"

The 6th Period of Mass Extinction is caused by humanity

The 2018 Living Planet Report from the World Wildlife Fund for Nature:
- Wildlife populations have **declined** on average by 58% between 1970 and 2012

Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)
  2019 Global Assessment Report on Biodiversity and Ecosystem Services:
- Average of 25% of species across terrestrial, freshwater and marine vertebrate, invertebrate and plant groups now considered **threatened** with extinction
- About 1 million species (animal and plant) are threatened with **extinction**, 75% being insects

Business activity and humans are causing the extinction crisis:

- Habitat destruction and degradation
- Over-exploitation (extraction, hunting, fishing etc.)
- Pollution, disease, pesticides and herbicides
- Invasions of alien species (e.g. cats and rats on islands)
- Global climate change (changes in migratory species, coral bleaching)

And in turn, the extinction crisis is a **material financial issue**:

	HUMAN ACTUAL 2019	EARTH'S PRODUCTION 2019*
Goods and services provided by ecosystems	$ **145**,000,000,000,000	$ **98**,000,000,000,000
Number of traditional and modern medicine plant species required	**50,000** – 70,000	**37,500** – 52,500
Harvest from the oceans	**100**,000,000 tons	**67**,000,000 tons

illustrative values based on a 2019 earth overshoot day of 1 August and 25% plant species facing extinction

Caviar - the threat to sturgeon is a material financial issue

- the most threatened group of animals on the IUCN Red List
- 85% of sturgeon, used to source Caviar, are at risk of extinction
- All 18 species of sturgeon from all over Europe and Asia are threatened
- World market for Caviar expected to grow 5.7% annually and reach US$500 million in 2023

Plants - the threat to plants is a material financial issue

- Plant Extinction rate is 500 times greater now than before the industrial revolution (2019 Global Scientific Research)
- 400 species of plants used for medicines are at risk from over-collection, deforestation and habitat destruction (Botanical Gardens Conservation International)
- Over 50 % of pharmaceutical drugs prescribed derive from chemicals first identified in plants.

Agriculture - the threat to bees is a material financial issue

- Value of agricultural crop production **$2.6 trillion** in 2016
- Increased around threefold since 1970
- Between $235 billion and $577 billion in annual global crop output is at risk as a result of pollinator loss.

In South Africa - the threat to medicinal plants is a material financial issue

- 2062 indigenous plant species (10% of total flora) used for traditional medicine
- 200 of these are threatened with extinction

> **"So important are insects and other land-dwelling arthropods that if all were to disappear, humanity probably would not last more than a few months. Most of the amphibians, reptiles, birds, and mammals would crash to extinction about the same time"** Wilson, 1992
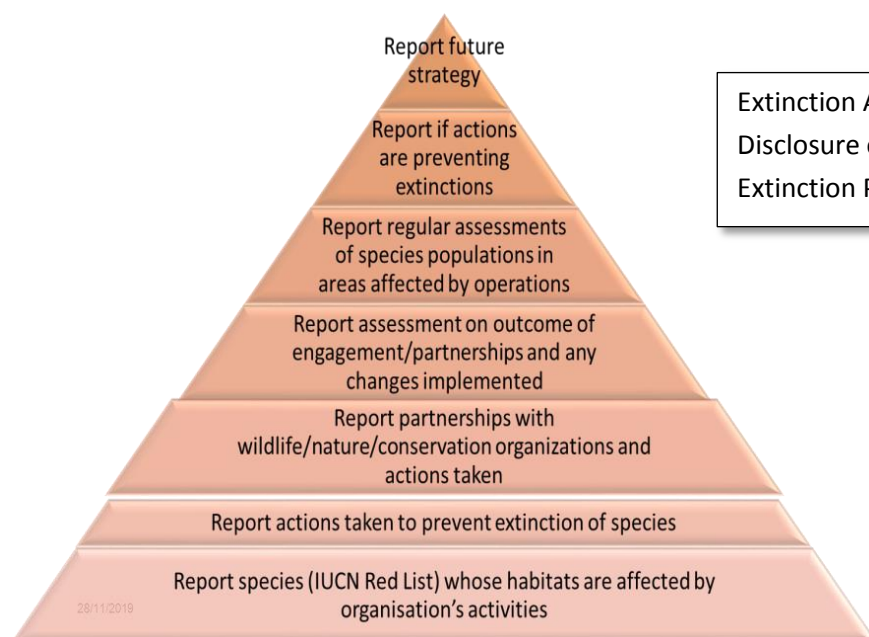
Guidance for organizations
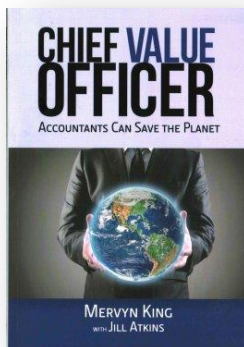
"In this world, achieving a resilient and sustainable business model has never been more challenging. Viewing **value creation** only through the lens of shareholders means undermining trust in the organization, compromising its reputation, and even threatening its license to operate.

In contrast to financial reporting, **integrated reporting** provides a broader foundation for accounting for value creation. It enables greater corporate accountability, communication, and transparency.

Integrated thinking requires the Chief Financial Officer (CFO) and their finance team to move from accounting for the balance sheet to accounting for the business and value creation. As Mervyn King, Chair Emeritus of the International Integrated Reporting Council put it, "the CFO should be known as the CVO – chief value officer." The **CVO role** must ensure that all relevant aspects of value creation and destruction are accounted for and communicated to boards, management, and external stakeholders."

Accounting for Value Creation and Encouraging the Rise of the Chief Value Officer, IFAC, 2019

Integrating Species Protection into Reporting Frameworks

The Natural Capital
Coalition Natural Capital
Protocol (NCP)
↓
6 capitals

International Standards on
Accounting and Reporting
(ISAR)
IFRS
↓

Intergovernmental Science-Policy Platform
on Biodiversity and Ecosystem Services
(IPBES) May 2019 report

Sustainable Development
Goals
(SDGs)
↓

↘   ↓   ↙

The EU Sustainable
Finance Action Plan   →

**INTEGRATED REPORTING
arising from integrated thinking
SASB**
←

SDG clustering under
economic, social and
environmental issues

↗   ↑   ↖

Extinction accounting

Aichi Targets

Global Reporting Initiative
Principles
(GRI)

↑

United Nation's Convention on Biological
Diversity (UNCBD)
What about UN Global Compact Principles
7-9

Extinction Accounting Framework for Disclosure on Species Protection and Extinction Prevention

Report future strategy

Report if actions are preventing extinctions

Report regular assessments of species populations in areas affected by operations

Report assessment on outcome of engagement/partnerships and any changes implemented

Report partnerships with wildlife/nature/conservation organizations and actions taken

Report actions taken to prevent extinction of species

Report species (IUCN Red List) whose habitats are affected by organisation's activities

28/11/2019

Species Protection Action Plan for the Financial Sector

Integrating extinction prevention and species protection and responsible investment (RI)

- Implementing extinction **accounting** – corporate, public, charity and voluntary sectors

- Including species protection in RI engagement through extinction **engagement**

- Including extinction and species **protection** in: Responsible banking; Pension fund trustee agendas; Fund manager mandates; Stock indexes; Sustainability ratings and Financial analysis

Ecological Governance

In order to incorporate material financial risks arising from climate change and extinction of species, current corporate governance frameworks must be transformed to bring ecological risk management and species protection into the heart of governance mechanisms

- **Responsible investment** - engagement with institutional investors

- Ecological **KPIs** for determining executive remuneration, performance

- **Skilled directors** – include non-execs skilled in climate/ecology/species protection

- **Skilled personnel** – with specific ecological responsibilities

  - Chief Value Officer - Extinction Accounting and ensuring value creation in a sustainable manner
  - Ecological Engagement officer

Ecological Key Performance Indicators

- Annual % reduction in financial risk estimated to arise from species loss/climate change
- Estimated decrease in cost of capital arising from reduced risks from species loss/climate change
- Annual % increase in endangered species populations in habitat affected by business operations
- Annual % reduction in fines/legal liabilities arising from environmental damage/habitat loss/endangered species loss
- Year on year improvement in habitats and ecosystems affected by business operations
- Evaluation of successful engagement/partnership with wildlife/climate change NGOs
- Annual % increase in spending on conservation, species protection and habitat preservation

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Comment by Prof Mervyn King

I think that this talk and the talk by Professor Tabensky show that the question of due diligence and discharging our duty of accountability as directors has changed completely. If you think you are being accountable and you don't take account of what is happening in your supply chain, for example, you are actually failing in your duty of care to the company. When performing a due diligence ten to twelve years ago we may have just done a financial due diligence. But today a due diligence has changed completely.

In 2011 we issued CRISA, the Code for Responsible Investing in South Africa. Unfortunately, ASISA and all the associated bodies have not got this to be adopted by our asset managers and asset owners on a consistent basis. This has driven the South African financial services conduct authority, some 2 months ago, to issue a guidance notice that trustees of pension funds particularly, and directors of financial institutions, MUST take account of environmental, social and governance factors before investing a beneficiary's money in the equity of that company. I have spoken with the authority and if they don't see these changes happening in the next few months, they will legislate about it and have criminal sanctions. So that's where the world is going. What Jill has spoken about is reality. This is the frightening thing - that companies carry on business without taking account of these issues. Directors in my view are not discharging their duty of care when they are not looking at these issues.

Transformational versus Transactional Leadership

Dr Abhinanda Gautam

"Leadership is like beauty, it's hard to define but you know it when you see it." *Warren Bennis*

Case Study – the U2 band

The U2 band members include: Bono, the Edge, Adam Clayton and Larry Mullen Jr. Popular for their live performances, the group have staged several ambitious and elaborate tours over their career.

Unfortunately Adam Clayton fell prey to alcoholism and suffered from depression during his early years with the band but the rest of the band helped Adam to quit drinking to address his depression.

"In our band, no one will be a casualty. We all come home, or none of us come home. No one will be left behind. Thank you for honouring that promise, and letting me be in your band." Adam Clayton

The Joshua Tree' Took U2 to the top of the world! The band broke records and had become masters of their domain, both in the studio and on the road. The group's fifth album, The Joshua Tree (1987), made them international superstars and was their greatest critical and commercial success.

In 1987, U2 received a letter that stated Bono, the band's lead singer, would be killed if the band played the song Pride, which honours the life and legacy of the Rev. Dr Martin Luther King, Jr, at an event in Texas. The FBI told U2 it believed the threat was not a hoax.

U2 together, decided they would take a stand - they wouldn't back down!!!

"I didn't even look at the crowd." - Bono kept his eyes closed during the whole performance, fearing the worst…

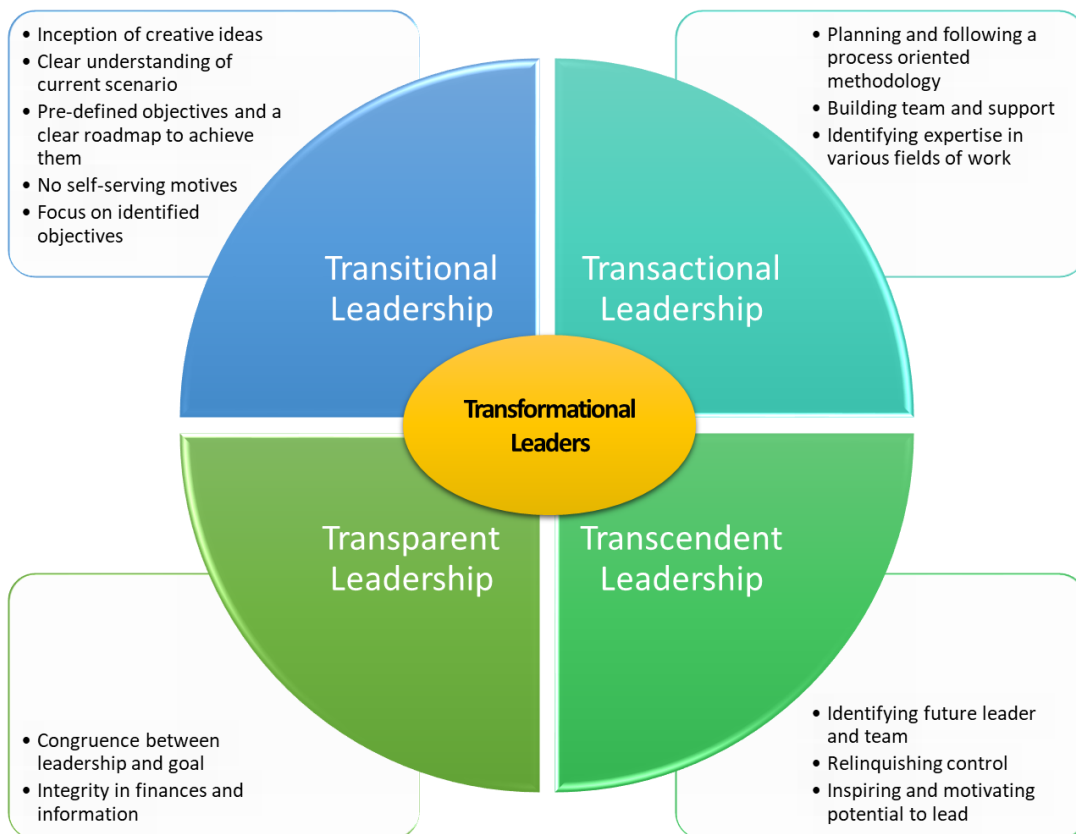"and when it was finished and I looked up, I saw Adam was standing in front of me for the whole thing!" Bono

Is there someone in YOUR life that can hold your hand and back you up?
When in hot water, what kind of a leader are you…?

"Leadership is not about titles, positions or flowcharts. It is about one life influencing another."
John C. Maxwell

Components of Leadership

Transitional Leadership
- Inception of creative ideas
- Clear understanding of current scenario
- Pre-defined objectives and a clear roadmap to achieve them
- No self-serving motives
- Focus on identified objectives

Transactional Leadership
- Planning and following a process oriented methodology
- Building team and support
- Identifying expertise in various fields of work

Transformational Leaders

Transparent Leadership
- Congruence between leadership and goal
- Integrity in finances and information

Transcendent Leadership
- Identifying future leader and team
- Relinquishing control
- Inspiring and motivating potential to lead

Transactional Leaders

Followers are moved to complete their roles as agreed with a leader in exchange for a reward

- Focus on **goals**
- Use **rewards and punishments** for motivation - incentives and disciplinary measures to "transact" with followers to achieve compliance and relies on using external motivators to satisfy basic needs
- Is **reactive** in nature
- Generates **immediate results** and is good for reaching short-term goals
- Is applicable for managing **day-to-day** activities and maintaining productivity
- Is useful for **resolving crises**, during emergencies, and when dealing with tight deadlines
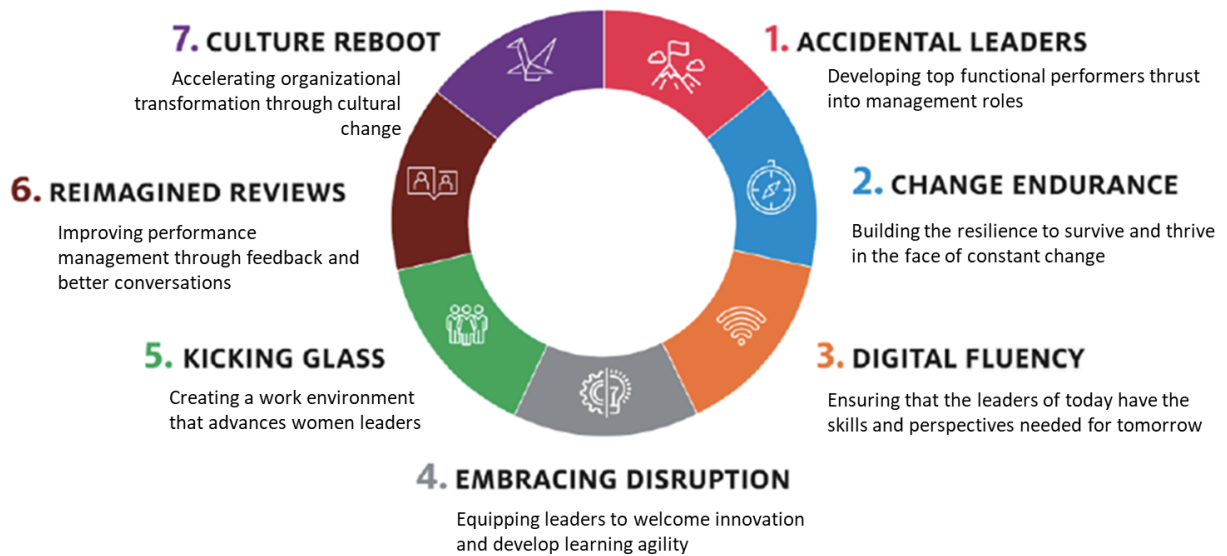
Transformational Leaders

Move followers to awareness about what is important and away from own self-interests

- Focus on **vision**
- Use **charisma and enthusiasm** for motivation. They set out to empower followers and nurture them to change and become strong role models for their followers
- Are **proactive** in nature
- They create a **vision**
- They act as **change agents** who initiate and implement new directions
- They act as **social architects**

Research suggests that using a transformational leadership style creates a work climate where subordinates feel enthusiastic about their work and where they improve results,
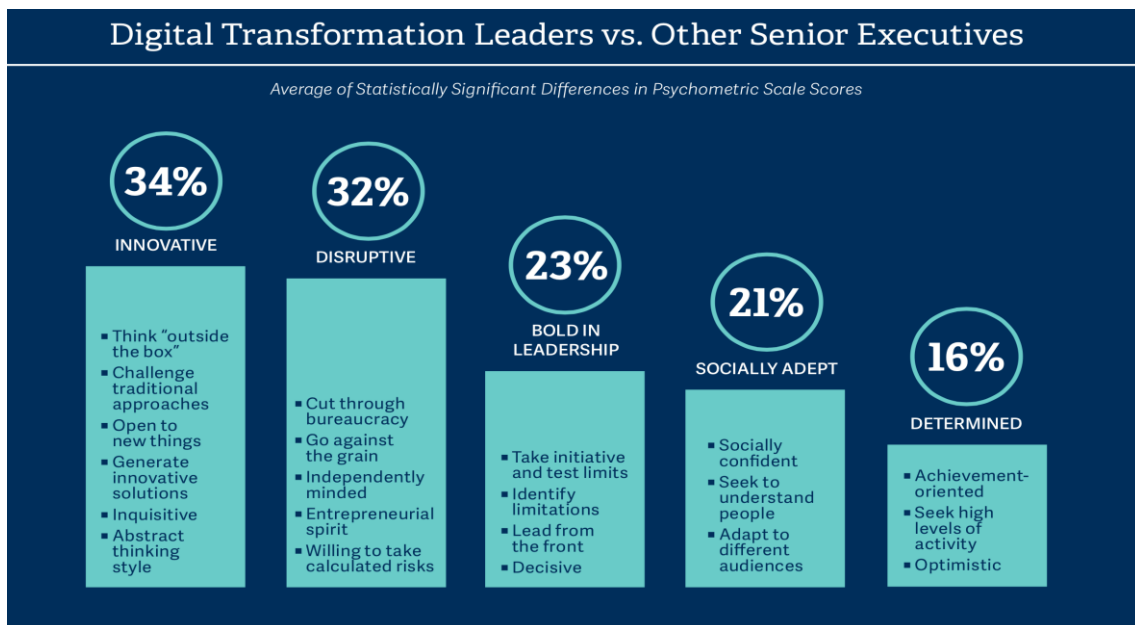not only for the organization, but also for themselves

Emerging trends of Transformational Leaders

7. CULTURE REBOOT
Accelerating organizational transformation through cultural change

6. REIMAGINED REVIEWS
Improving performance management through feedback and better conversations

5. KICKING GLASS
Creating a work environment that advances women leaders

4. EMBRACING DISRUPTION
Equipping leaders to welcome innovation and develop learning agility

1. ACCIDENTAL LEADERS
Developing top functional performers thrust into management roles

2. CHANGE ENDURANCE
Building the resilience to survive and thrive in the face of constant change

3. DIGITAL FLUENCY
Ensuring that the leaders of today have the skills and perspectives needed for tomorrow

Productive disruptors

Five characteristics that differentiate transformational leaders

https://www.russellreynolds.com/insights/thought-leadership/productive-disruptors-five-characteristics-that-differentiate-transformational-leaders

Digital Transformation Leaders vs. Other Senior Executives

Average of Statistically Significant Differences in Psychometric Scale Scores

34% INNOVATIVE
- Think "outside the box"
- Challenge traditional approaches
- Open to new things
- Generate innovative solutions
- Inquisitive
- Abstract thinking style

32% DISRUPTIVE
- Cut through bureaucracy
- Go against the grain
- Independently minded
- Entrepreneurial spirit
- Willing to take calculated risks

23% BOLD IN LEADERSHIP
- Take initiative and test limits
- Identify limitations
- Lead from the front
- Decisive

21% SOCIALLY ADEPT
- Socially confident
- Seek to understand people
- Adapt to different audiences

16% DETERMINED
- Achievement-oriented
- Seek high levels of activity
- Optimistic

Leadership into the future

		GENERATION X	GENERATION Y
In a nutshell		X'ers grew up in the advent of affordable technology. They worked hard for the firm and placed family high on the priority list. They are coming to terms with diversity, the multi-cultural workplace, and work/life balance.	Technology and information is commonplace. Y's juggle a hectic work and social life. They are highly networked and connected. The multicultural and diverse workplace is a norm, and they enjoy working collaboratively in teams.
How they are motivated		Career progression / Leveraging opportunities for promotion	Job variety / Creativity
How they communicate		Defined boundaries / Structured lines of communication	Multi-modal / Networked & Social
Their leadership style		Directive / Lead from the front / IQ focus	Involved / Participative / IQ & EQ balance
How they deal with failure		Analyse and 're-do'	Reflect and press the 'un-do'
What if they don't know		Research, analyse and gather more data	Refer to their social network

Millennial Leaders

50% of working millennial respondents are already in leadership positions—creating a sense of urgency to prepare them

44% of working millennial respondents have only 3 – 5 years of work experience, yet

41% have 4 or more direct reports

70% of respondents want to launch their own organization – and results indicated that the highest percentages are for millennials in Brazil, China, India, and Mexico

Less than **20%** want to be a leader at a large organization

The type of leadership to which millennials aspire

Who they want to be:

- Approachable, open and transparent
- Ethical, fair, honest and trustworthy
- Analytical

What they want to do:

- Develop skills
- Inspire, encourage and motivate
- Treat others with respect and dignity and foster an inclusive environment

How they want to communicate:

- Clearly articulate thoughts, opinions and ideas
- Have truthful and transparent conversations
- Solicit, accept and take action based on subordinate feedback

Take a look at yourself in the mirror… what type of a leader do you see?

Look out at the business world … what type of leaders do you **want** to see?

Why (a lot of) Leaders Derail

The Need to Embrace Creative Destruction

Rekgotsofetse Chikane

"Derailment in a leadership or executive role is defined as being involuntarily plateaued, demoted or fired below the level of expected achievement or reaching that level but unexpectedly failing"
(Burke, 2006)

It is often the result of three forms of leadership situations
(Furnham, 2016):
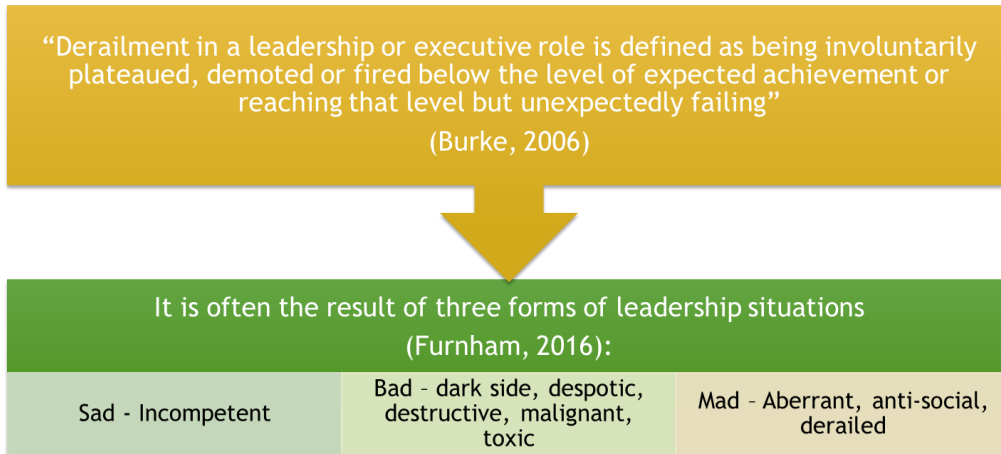
| Sad - Incompetent | Bad – dark side, despotic, destructive, malignant, toxic | Mad – Aberrant, anti-social, derailed |

But this thinking about derailment is inherently false:

- The notion of derailing assumes that careers function in some form of linear or teleological form, that somehow leadership is solely path dependent and thus a deviation from this path is bad
- The expectation is that progress should ideally be straightforward or follow a preconceived route which implies then that derailing must be an act of some force that pushes one off this intended track

Notions of leaders "derailing" too easily assume that derailing is either due to individual ineptitude or exogenous shocks caused by corporate culture. Leadership is complex and complicated, predicated on the use of influence. To make this assumption would be short-sighted and misleading.
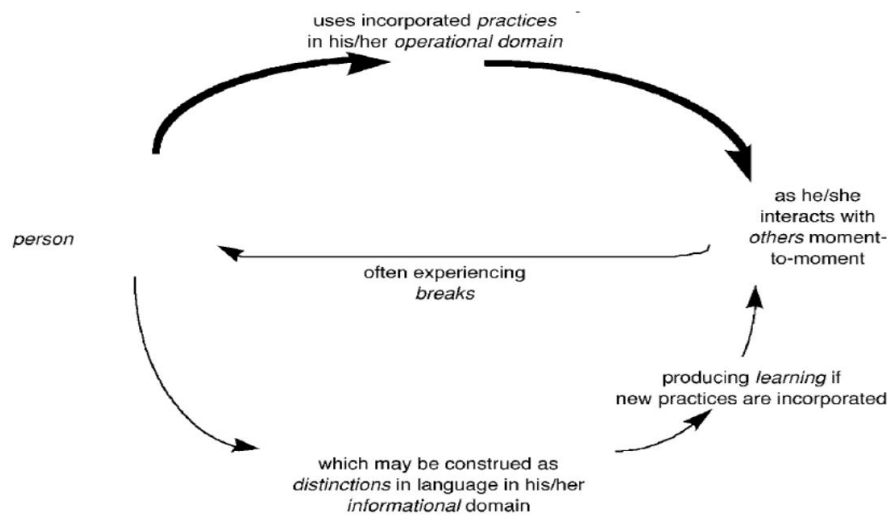
"**Leadership is not only incremental influence of a boss toward subordinates, but most important it is the collective incremental influence of leaders in and around the system.**"
Espejo, 2003

Monitoring the act of derailment from one dimension fails to understand the complex interdependent relationships and connections within an organisation. Though structures may be hierarchical in nature, in reality humans are not rank and file individuals. We function as part of a social system that emerges as individuals interact with one another and these collective relationships are conserved both formally and informally. (Espejo, 2003)

Person A and B can have an ordered relationship only if the relation is conditioned / restrained by C, the environment.

Individual Feedback
Espejo, 2003

uses incorporated *practices*
in his/her *operational domain*

person

as he/she
interacts with
others moment-
to-moment

often experiencing
breaks

producing *learning* if
new practices are incorporated

which may be construed as
distinctions in language in his/her
informational domain

Collective Feedback
Espejo, 2003

are thrown into moment-to-moment
interactions in existing social contexts
(Social Operational domain)

Collectives

constituting themselves
as roles of existing and/or new
social systems

which produce
'break' experiences in

which they may ground
as new practices

who construe these
experiences as shared
distinctions in language
(Social Informational domain)

Creation of Order	**Interdependence**
Emergence	**Connectivity and Interdependence**
The spontaneous emergence of order, the occurrence of self-organisation	Degrees of Connectivity Co-evolution
• Emergence is the result of properties, qualities and patterns that are the result of individual elements combining to be greater than the sum of the parts. It creates new patterns through self-organisation (Kauffman, 1993)	• Every agent is both influenced and is influenced by the social system of the organisation
• Therefore emergence is often not a process that is reversible	• Influence is often through the transference of information and knowledge Co-creation
Feedback	
• Changes by an individual impact and cause changes in the system which subsequently force an individual to adjust further and as a result impact the system so on and so forth	
• These can be both positive and negative	
• Can be seen at both a micro (individual level) and macro (organisational level)	

The search for leadership advancement / progression / functionality doesn't necessitate the search for one optimal leadership approach. Depending on the conditions around the individual an approach can be optimal in one situation and not in another.

Organisations and leaders should be constantly scanning its **space of possibilities** for leadership and constantly be experimenting. In fact, derailment could be attributed to the search for an optimum leadership form within a space of possibilities without considering the conditions of the organisation and the wherewithal to experiment effectively and efficiently.

Experimenting with the new, both individually and organisationally, naturally leads to the replacement of the old. That being said, the new is not always better than the old but is an attempt to evolve to match the changing conditions of the whole.

Experiments that impact (or fail to impact) the organisation will ultimately feedback to the individual motivating them to adjust. These feedback loops can manifest through images of a Sad, Bad or Mad leader who has then "derailed".

It is often the result of three forms of leadership situations (Furnham, 2016):		
Sad - Incompetent	Bad – dark side, despotic, destructive, malignant, toxic	Mad – Aberrant, anti-social, derailed

Therefore Leadership, whether successful or not, becomes a more endogenous entity within a firm rather than an exogenous effect on the firm.

If one insists on using the notion of derailing in conjunction with understanding the 'complexity' of organisations, the failure of leaders to meet expectations becomes a failure to either:

- Embrace the Creative Destruction inherent with a leadership position; or
- Acknowledge that such a system even exists thus falling victim to the winds of change.

Borrowing from Joseph Schumpeter, I believe leadership within an organisation is more an activity of finding emergent novelty within an organisation through entrepreneurial experimentation within the space of possibilities rather than an exercise to find an exogenous panacea.

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If the tracks of expectation change one needs to adapt to the change.
Failure to adapt is linked to the failure to meet expectations.

Adaptation is thus **Creative Destruction** within a space of possibilities undertaken through a process of:

- Imitation

  Creating imitative solutions of what is currently available or from the innovation of others

- Invention

- Innovation

  Creating a conjecture of hypotheticals within an organisation's notion of the old, actualising them successfully and monitoring the impact the new has on the old

Innovation within organisations can often be "fatally compromised by the conflict between leadership and bureaucratic action", Metcalf, 2010

The question of why leaders don't evolve and adapt is probably more apt to understanding how to improve as a leader rather than the question of why leaders derail.

Why leaders don't evolve - some reasons include:

- An over reliance on a preconceived notion of what leadership is at the next level and possibly an overreliance on expectations
- An over reliance on trying to improve interpersonal skills without realising the feedback loop being created
- An over reliance on understanding an organisation's impact on an individual without acknowledging the organisation's own feedback loop
- An inability to successfully undertake one of the processes of imitation, invention or innovation required by an organisation under a certain set of conditions

How does one evolve?

- Be willing to experiment
- Learn how to navigate the space of possibilities within an organisation
- Acknowledge the potential to fail
- Be ready to destroy the old
- Prime yourself to innovate in the face of liabilities of newness
- Prime yourself to successfully imitate
- In the rare occasion, prime yourself to invent

Panel Discussion

Panel:
- **Michael Judin**, Partner and Joint Owner, Judin Combrinck Inc., Attorneys

- **Annamarie van der Merwe** , Co-Chief Executive Officer, FluidRock Governance Group

- **Athol Williams**, Senior Lecturer, University of Cape Town

- **Leigh Roberts**, CEO, Integrated Reporting South Africa

Host:
- James Forson, Chief Operating Officer, Regenesys Business School

Questions:
- How does one thrive in a corporate when the culture is one of telling the boss what they want to hear rather than what they need to hear?
- For the last 50 years we have heard that management must get out of the control room and start engaging with employees, but we have yet to see this happen.
- What is the point / aim of effective leadership? What are we trying to achieve?

Answers:

Annamarie:
- Being in the corporate world and growing up in boardrooms I see a lot of window dressing and box ticking, rather than mindfully and purposefully engaging. This is a problem. As they say "if you don't know what you stand for, you'll fall for anything".
- Leadership does not come with a title. It is about who you are, where you are, how you behave and who you are leading. I am a leader of my 2 children and I focus there on values and what is important in life.
- I train a lot of company secretaries and having to stand up against what is going on in boardrooms. One of the immediate responses is "but then I'm going to lose my job". My response is "rather lose your job with your reputation intact than go down with the ship sinking". So these are the things we need to think about – what is important to us as individuals and what difference I can make in my own sphere of influence. Whether I am the CEO of the company or an administration clerk, I can be a leader – in the way I behave and the way I treat people. It's about your behaviour more than your words.

Athol:
- I believe that organizations are part of society and as such the leadership of these organizations should advance society, whether this is about addressing social injustices or social ills. So for me, an element of being a leader is addressing my contribution as a leader of this organization for the betterment of society.
- I have recently resigned from an international business consultancy for alleged involvement in "state capture". Why would I walk away? Because I was part of an organization which I didn't feel would allow me to contribute to advancing society in South Africa.

- A fundamental of leadership is firstly, self-leadership - "what am I willing to do?" I'm not in favour of this idea of people must follow me; rather I want my actions to be my argument. My question to myself at the time was; "If I'm not willing to walk away, how can I possibly expect others to stand up".
- In South Africa, right now, we are in a "moral moment" – "How did things get so bad? Why is our country so corrupt?" I believe that as individuals, if we remain silent and do not stand up, we are complicit by our silence.
- There are, of course, consequences to this. Being ethical in an unethical environment comes at huge cost. There is no such thing as a costless transition from corruption to no corruption. The question is who is going to stand up and be willing to accept the costs and consequences. For me, this is what leadership means in South Africa right now.

Leigh:

- One must do what feels right for them, no matter whether at work or in your personal life – this is accountability. No matter the career you take, one must speak their mind and their truth. A lot of being a leader is personal accountability.

Michael:

- For me, it is very hard to trust and I find myself very cynical.
- However, I saw a wonderful example of leadership recently in rugby. I saw Rassie Erasmus and Siya Kolisi speak with honesty when as coach and captain they brought the rugby world cup back to South Africa.
- I believe that the most important aspect for a leader is honesty. We have become so used to our leaders lying to us that this has undermined our faith and trust in leadership. Prof Mervyn King speaks about "intellectual honesty" – this resonates with me. I now question myself whether what I am doing is honest.

Questions:

What about the strong dominant or charismatic leaders who "sterilise" the people reporting to them, taking away their ability to innovate, their freedom and their flexibility to do the right things?

Answers:

Annamarie:

- There was a report recently by Reputability. They did a study in 2013 on the causes of 40 corporate disasters. The findings were: Firstly that all the disasters emanated from the boardroom – it started with the leadership; and Secondly the skills and the influence of the non-executives and the impact that they made. Another point was made regarding charismatic or arrogant leaders.
- Stellenbosch University did a case study on Steinhoff - a company listed in Amsterdam and Johannesburg which has collapsed – one of the "lessons learnt" they uncovered, was that a charismatic leader can either be very good or very bad for an organization. It sometimes

astounds me that seemingly intelligent people allow themselves to be led "down the garden path" by these people.

Questions:

- We have spoken about "speaking up" – sometimes, like Athol, one can leave the organization, but sometimes it leads to confrontation which may then lead to legal action. In some cases, the corporate has seems to have unlimited legal resources and the individual only limited resources. What can the individual do in such cases?
- How do you fight against a system where you have powerful people against you?

Answers:

Michael:

- Very often leaders get judged negatively in a corporate disaster when they refuse to comment or they comment in a particular way. They get judged by public opinion as not being a caring leader or not being an accountable leader. However, in most cases their responses are driven by their insurers and the lawyers – the leaders aren't always able to say what they would like to say.
- I am aware of a particular case where the insurer said that the leader was to say nothing – they said "You will say nothing. You will show no sympathy. You will show no regret. You will make no admissions. Your insurance cover is at stake." When the leader follows these directions, the country judges this leader as not caring and not accountable.

Athol:

- I personally believe that ultimately it is a choice that the leader has to make. For me hiding behind insurance cover, legal privilege or confidentiality agreements is still a fundamental choice made by the individual.
- When I resigned, it wasn't the end of my troubles, it was the beginning. Right now I face threats of legal action from around the world; I have received threats of physical violence; I have had to improve my home security; I have had to get visas so I can get my family out of the country very quickly if I need to; and I am going to be financially ruined because of this decision. So for me this decision was not taken lightly. I can understand why 99.9% of us don't do anything because of consequences such as these.
- Ethical comes at a cost. There is no such thing as a free ethical stance in an unethical country. Consider one's values. I believe that values only matter when there is an associated intention. Many of us pay lip service to the concepts of honesty and integrity because we have not given intention to these words and sacrificed in the process.

Leigh:

- We need to understand that we live, today, in a highly connected world. It is very hard to keep a "corporate skeleton in the closet". In this world of connectivity, the truth seems to prevail.
- A personal observation: Of the CEOs I have interviewed, the "bad leaders" seem to be very charming. Perhaps we should be looking for dull, boring CEOs?

Annamarie:

- In the book "From Good to Great" (Jim Collins), interestingly many of the leaders who took their organizations from Good to Great seemed to be "unknown" people who had come through the ranks. They weren't "celebrity" kind of people to Leigh's point.
- "Power corrupts the few, weakness corrupts the many". We need to change the culture of our nation and our society - it must become the "in thing" to be ethical. We need to teach our children accountability, responsibility and ownership for their decisions. We need our organizations to demonstrate their values in their culture.

Michael:

- I think a leader must ask themselves these questions: "To whom do I account? Whose opinion matters to me? Would I be proud to go to them and tell them that I made that decision?" I think that's a very powerful test for a leader to do before acting positively or negatively.

Prof Pedro Tabensky:

- I want to talk about the concept of sacrifice which Athol mentioned. I'd like to emphasise that there is no point at which you don't sacrifice. You can sacrifice your integrity, that's one option. When you make a difficult moral decision, you are always bound to harm some people and not others – there is a sacrifice. There is actually no point at which there is not a sacrifice. The issue is rather whether the sacrifice is the right one - which sacrifice is worth making?
- The CEO who was under pressure by the insurance company was making a sacrifice, but he was making a sacrifice that he knew was a sacrifice and he was pained by it and this would inform his future action as well.
- In Athol's personal case, he made a sacrifice and he is obviously suffering as a consequence of that.

Athol:

- I see that we all have a basket of responsibilities. At different times we choose which of these responsibilities will be paramount. For example, as a Director of a company, I see my fiduciary duty as paramount. But we hide behind this - actually this is still a choice. Life is complex, we can't just hide behind one of the responsibilities, we need to weigh everything and consciously make a decision. When making this decision, one also needs to consider what is being sacrificed as Pedro was saying.
- We also need to be consistent in our approach. You can't be someone who at home espouses the importance of environmental protection and then walk across the road and make decisions which detrimentally impact the environment. One needs the same set of rules to govern your decisions and your behaviour. One needs to be consistent.

Rekgotsofetse Chikane:

- The idea of a service delivery protest happening every single day in South Africa means that humans are saying that they are willing to sacrifice their livelihood for that day to advocate for change.

Annamarie:

- Integrated thinking must come naturally. That's why we need conscious leaders, leaders who understand what that means. We need integrated thinking and conscious leaders.

Leigh:

- Fundamental to integrated reporting is integrated thinking. I think that it is fundamental and the basis of the discussion that we have had. It is seeing the resources and the relationships that you use and rely on in terms of the 6 capitals and giving them respect. Because you rely on them, they will affect you in the future. What you do to your stakeholders affects you in the future and natural capital is one such stakeholder. The Cape Town example is used around the world now – No water, No business!

How did you find this memorandum?
Would you like to know more about how to get involved?

Please get in touch:
Email address:mervyn@mervynking.co.za

Bios for Colloquium

Carolynn Chalmers

Carolynn Chalmers is an international corporate governance practitioner and strategic advisor on IT, information and digital transformation matters.

Carolynn facilitates development programmes for director institutes, such as the Institute of Directors South Africa, and, as a certified trainer for the US-based Business Relationship Management Institute, she provides training and guidance for the optimization of value from shared services, such as finance, HR and IT.

Carolynn has extensive management and governance experience and has held various executive roles, such as Chief Information Officer and Chief Technology Officer, for multi-national, listed, private and public organisations. Her experience spans many industries, including financial services, public services, construction, tourism, education and renewable resource management.

Carolynn keeps current with emerging thought leadership by actively participating in, and shaping, the development of ISO standards both as a standard co-editor and committee convenor.

Carolynn is best known for her successes in designing and leading large, complex strategy and organisational transformation implementations which she attributes to effective executive and board engagement and the application of good governance principles.

Carolynn participates actively on LinkedIn as owner of Africa's largest corporate governance online discussion group, "Applying King IV".

Pedro Tabensky

Pedro Tabensky was born in Chile and has lived in the USA, Brazil, Australia, Israel, and the UK before settling in South Africa. He is the founding director of the *Allan Gray Centre for Leadership Ethics* (AGLE), which is part of the Department of Philosophy at Rhodes University. A central aim of the AGCLE is to teach ethics in ways that will not only help students' reason more clearly about ethical matters, but will also help foster changes in patterns of affect and behavior. The programme aims to show students the extent to which taking responsibility for their lives requires ongoing sensitive engagement, something that cannot be had without understanding the work of distorting forces from within and without that often motivate us to act contrary to our better inclinations. The programme is relevant to all fields and all aspect of life as it deals with ethics as an existential endeavor rather than as a set of procedures aimed at calculating what to do when the going gets rough.

He studied visual arts in his country of birth, specializing in painting, and he was an up-and-coming visual artist before migrating to Australia to study philosophy. In his spare time, Tabensky enjoys trail running while listening to audiobooks, cycling and hanging out with his wife, Sally, and his two young children, Lithalelanga and Noah.

Jill Atkins

Jill Atkins holds a Chair in Financial Management at Sheffield University Management School, the University of Sheffield and is also a visiting professor at the University of the Witwatersrand, South Africa and at the University of Pisa. Her research focuses on corporate governance, responsible investment, stakeholder accountability, integrated reporting and extinction accounting. She edits a series of Corporate Governance Research Monographs published by de Gruyter. Jill chairs the British Accounting & Finance Association's Special Interest Group on Corporate Governance. She has co-edited *The Business of Bees: An Integrated Approach to Bee Decline and Corporate Responsibility*, published in 2016, which arises from a long-term project investigating the role of accounting and responsible investment in preserving biodiversity. She also co-edited, *Around the World in 80 Species: Exploring the Business Case for Extinction Prevention*, which was published by Routledge in 2019. Jill was contributory editor to *Chief Value officer: Accountants Can Save the Planet*, authored by Mervyn E. King. Her leading textbook, *Corporate Governance and Accountability*, is soon to be published in its 5th edition. Jill serves as a director and trustee on the board of PAVO, the Powys Association of Voluntary Organisations.

Dr Abhinanda Gautam

Dr Abhinanda Gautam is a trainer, facilitator and academic leader with over 17 years' experience in HR functional areas. Specialises in motivating, encouraging and inspiring learners of various industries while maintaining, high interest and achievement. She is currently spearheading functions as Academic Head at Regenesys Business School, Johannesburg. She has published and presented several research articles in various national and internal platforms. She specialises in the fields of human resource management, organisational behaviour, training and development, leadership in organisations, mentoring and coaching, and negotiation and conflict management.

She is a Member of International Economics Development Research Center (IEDRC), A Fellow member of IAEME, International Board Member of Editorial Board of International Scientific Academy of Engineering & Technology and Science Publications.

Rekgotsofetse Chikane

Rekgotsofetse Chikane is the author of "Breaking a Rainbow, Building a Nation: The Politics Behind the #MustFall Movements". He currently works as a Lecturer of Public Policy at the University of Witwatersrand. He is a graduate of the University of Oxford, having completed his Master in Public Policy degree in 2017 and is currently completing his Masters in Management at the University of Witwatersrand's School of Governance with a focus on Decolonial development and complexity economics. He is a Mandela-Rhodes Scholar (2015), a recipient of the Mandela-Washington Fellowship (2016), Obama African Leader for 2019 and a South Africa Washington International Programme alumn and Board Member. He was recognised as one of the Mail & Guardian's Top 200 Young South Africans (2016) and is the former national president of InkuluFreeheid. He was a part of the both the #RhodesMustFall and #FeesMustFall movements in South Africa that demanded various social and economic reforms within the Higher Education system of the country such as decolonising the curriculum, free decolonial education, transforming spaces to be more inclusive etc.

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