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Enhancing the impact of Corporate Governance on financial performance in the Sun International Group of companies

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Abstract

The Sun International Group of Companies is a top-notch hospitality operation that has a very diverse portfolio of assets including some of the best five star hotels available in the world, a range of modern and well-located casinos, and some exquisite premier resorts that are second to none in the world. Their destinations offer experiential luxury, continuing quality and incredible adventure, and above all the group espouses policies and has operations which are supported by a dependable dedication to personal service. It is evident on a visit to any operation of the group that the customer comes first. The purpose of the study was to determine the extent to which the board is fulfilling its responsibility and to ascertain perceptions of the profitability of the company. Consequently it was important to find out if there is a relationship between board responsibility and profitability and examine the influence of the biographic variables on board responsibility and profitability respectively. The paper makes recommendations to fellow researchers, academics and stakeholders as to whether effective corporate governance is likely increase the performance of companies or not.

Key words: governance, hotel group, profitability

Source: http://www.wbho.co.za/images/portfolio/Sibaya-Casino-02.jpg

Introduction

The media is replete with major corporate failures including those at Arthur Andersen, Enron and large corporations which put “corporate governance” into the headlines. Such failures are mainly due to ineffective corporate governance which can significantly negatively affect *inter-alia* investors, creditors, employees, suppliers and consumers. There are many reasons to highlight corporate governance due to such high-profile financial scandals, business failures and the increased number of accounting frauds allegedly perpetrated by managers. Accounting failures in particular, have dented investor confidence and have raised several questions on the effectiveness of internal controls and governance structures.

In broader terms, corporate governance is about making sure that decisions in companies are made effectively and comply with legal and ethical considerations. Many senior or executive managers have too much autonomy and a lack of accountability and control is usually uncovered found where failures occur.

In 1994 the King Report on Corporate Governance (King I) was published in South Africa by the King Committee on Corporate Governance, headed by former High Court judge, Mervyn King S.C. (King Report on Corporate Governance for South Africa, 2002). King I, was aimed at promoting the highest standards of corporate governance in South Africa. Over and above the financial and regulatory aspects of corporate governance, King I advocated an integrated approach to good governance in the interests of a wide range of stakeholders. King I was adequate at the time to address governance however changes in world economies and legislation had resulted in an update to King I. (King Report on Corporate Governance for South Africa, 2002). This led to the development of the King Report on Corporate Governance for South Africa, 2002 (King II). The implementation of King II had resulted in South African companies following good governance principles and practices which could be seen by the significant capital inflows into South Africa before the financial crisis of 2008 (Institute of Directors, Southern Africa, 2009).

The Sun International group

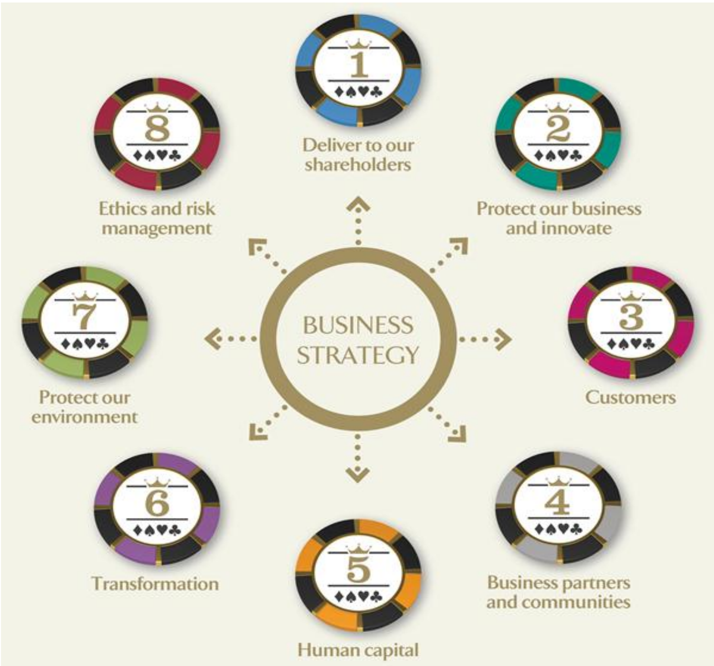
The Sun International group is Africa's largest tourism, leisure and gaming group and operates or has an interest in a total of 27 resorts, luxury hotels and casinos across eight countries. This includes 15 superb operations in South Africa, two in Zambia, two in Lesotho, one in Botswana, one in Nigeria, one in Swaziland, one in Namibia and one near Santiago in Chile. Sun International also opened a casino in Panama in October 2014 and have been granted a casino licence in Colombia. They differentiate their hotels, resorts and casinos in architecture, service, experience, location and the mix of entertainment and activities. Creating lasting memories for both guests and customers is a core part of their DNA. They created some of the world's most iconic hotels ranging from The Royal Livingstone Hotel at Victoria Falls, to The Palace of the Lost City at Sun City and The Table Bay Hotel in Cape Town (suninternational.com).

The Sun International Group remains committed to ethical leadership and demonstrating sound corporate governance practices which are embedded throughout the Group companies, in all the jurisdictions in which the Group operates. Their commitment remains underpinned by the pillars of their responsibility, accountability, fairness and transparency to all stakeholders resulting in the creation and preservation of the Group's long term sustainability thereby delivering value to all stakeholders.

The Group, having embraced best practice governance requirements, has effectively been implementing and reporting on a broad spectrum of governance principles over the years (Sun International Investor reports, 2012). In a nutshell, this is a great group and one that all Africans can be proud of. Sun

International is a successful international leisure Group, offering customers superior gaming, hotel and entertainment experiences in Africa and South America.

They contribute directly to the economies of countries in which they operate through the payment of various rates, taxes, levies and fees, salaries and wages and by purchasing local products and services. They also contribute through training and development programmes for all our staff as well as through ancillary benefits that affect their families and communities. They are undoubtedly very aware of their responsibilities to all their stakeholders. Their contribution to development across many areas is a key focus of their strategy to help create sustainable societies. Sun International has eight key strategic focus areas that are critical to the long term success and sustainability of our business and its environment. These are shown below:



Sun International's eight key strategic imperatives

Source: http://suninternational.investoreports.com/sun_ar_2011/overview/about-the-integrated-report/

Limitations

This study was limited to Sun International and no inferences can be made across other sectors.

Literature review

Corporate governance can be defined as a system of rules, practices and processes by which a company is directed and controlled. It involves balancing the interests of the customers, suppliers, shareholders, society, management and employees. It also provides the framework for achieving a company's objectives, deriving action plans and internal controls to mitigate risks and ensure corporate sustainability and disclosure, (Corporate Governance, Investopedia). 'Governance' relates to the governing of an organisation in the top echelons. Governance thus focuses on the actions taken by top executives i.e. the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and their fellow Board of directors who carry responsibility for the success or failure of the organisation. The corporate governance process is in terms of the four principal activities which are involved namely (Tricker, 1984: 7); *Direction* - formulating the strategic direction for the future of the enterprise in the long term. *Executive action* - involvement in crucial executive decisions. *Supervision* - monitoring and overseeing of management performance. *Accountability*- recognising responsibilities to those making a legitimate demand for accountability.

Building on the arguments advanced by Tricker (1984), Keasey and Wright (1993) emphasized the need to view corporate governance as having two broad dimensions. Firstly, the monitoring of management performance and ensuring the accountability of management to shareholders emphasizes the stewardship and accountability dimensions of corporate governance. Secondly, governance structures and processes need to encompass mechanisms for motivating managerial behaviour towards increasing the wealth of the business that is to enhance enterprise profit maximisation (Brennan, 2008: 232).

Matters of accountability involve the presentation of financial information and the steps taken to ensure the reliability of such information.
Corporate scandals both in South Africa and abroad have highlighted the following concerns with regards to governance issues:

- The spread of "creative" accounting.
- Spectacular increases in unexpected business failures.
- The apparent ease with which unscrupulous directors can expropriate other stakeholder's funds.
- The very limited role of auditors.
- The apparently weak link between executive compensation and company performance.
- The market place focuses on short-term perspectives, to the detriment of general economic performance (Wixley & Everingham, 2005: 5).

There is no single universally appropriate model of corporate governance. Governance practice varies across countries, firms and industry sectors. This principle was recognised in the King Report on Corporate Governance for South Africa 2002 ("King II"), which reiterates that:

> *"Companies are governed within the framework of the laws and regulations of the country in which they operate. Communities and countries differ in their culture, regulation, law and generally the way business is done. In consequence, as the World Bank has pointed out, there can be no single generally applicable corporate governance model. Yet there are international standards that no country can escape in the era of the global investor. Thus, international guidelines have been developed by the Organisation for Economic Development Principles of Corporate Governance (OECD), the International Corporate Governance Network and the Commonwealth Association for Corporate Governance. The four primary pillars of fairness, accountability, responsibility and transparency are fundamental to all the international guidelines of corporate governance."*

King II required companies to implement the practice of sustainability reporting as a core aspect of corporate governance. King III supports the notion of sustainability reporting and mentions that sustainability reporting should be integrated with financial reporting (King Report 2009: 13).

Financial reporting forms part of corporate governance and its credibility depends on the quality of the accounting practices used to produce the numbers and narratives contained in the reporting financial statements. Any attempt to "massage" or manipulate these numbers by creative accounting runs counter to the aims of corporate governance. It is not in the interests of shareholders and other users of financial statements to receive accounting numbers that do not reflect the underlying economic substance of the business transactions on which they are based. Potential investors and banks base their decisions on information provided in the financial statements and misleading information presented can place these investors or financiers at risk. More specifically, because of creative accounting, shareholders and others are deceived about the financial performance and position of the reporting company and may make inappropriate decisions e.g. purchasing or holding shares when they should be selling or lending money long term when it is imprudent to do so. The effectiveness of corporate governance is generally negatively affected by creative accounting (Lee, 2006: 233-234). Correctly applied, good governance can be an important competitive advantage used to maximise a company's performance, increase a company's potential to encourage capital investment, and positively influence a country's ability to attract foreign investment. It remains an essential ingredient for nurturing trust and business confidence (Naidoo, 2009: 22).

With the publication of the King Reports, one of the King II's focal points was the move from single to triple bottom line accountability. The latter aims at achieving a balance between the need of organisational prosperity, the human needs associated with the company's business, and the needs of the environment – the people, planet and profit. Sustainability and triple bottom line considerations receive greater coverage in King III from the point of view of the need for companies to seek to integrate reporting of their financial, environment, social and ethical performance (Naidoo, 2009: 250).

In as much as the directors are particularly concerned about the financial well-being of the enterprise, financial performance is one of the important measures of the success and progress of a company. A considerable amount of time at most board meetings is devoted to the discussion of the financial statements. A review of the financial budgets is discussed at this meeting to determine whether the company has met its financial targets and goals for the year which includes earnings and profitability. Further discussion involves decisions made about the performance of business segments and identifies plans to correct shortfalls in earnings. The board of directors depends on the financial statements prepared by management as a basis for its analysis of the company's activities. Needless to say, the requirement that such statements be accurate is absolutely critical and cannot be over emphasized. They are the basis upon which an understanding of the operations of the organisation is made and the foundation upon which almost every decision that the board makes rests. Responsibility for reviewing, assessing and reporting the veracity of statements is delegated by the board to an audit committee that in turn is usually advised by professional auditors (Leblanc & Gillies, 2005: 55-56).The term 'corporate governance' has come to embrace those devices, mechanisms and structures which act as a check on managerial self-serving behaviour (John & Senbet,1998). However the purpose of checking self-serving behaviour is to promote the efficient operation of the firm,(John & Senbet, 1998), Devices employed to reduce self-serving and hence improve accountability cannot be seen as efficient if they also hamper the performance of the firm,(John & Senbet, 1998). 'Good' corporate governance, therefore, can be seen as referring to the mix of those devices, mechanisms and structures which provide control and accountability while promoting economic enterprise and corporate performance. It is far from clear that the recommendations of corporate governance codes act to achieve "good governance" from both the accountability and enterprise perspectives, (John & Senbet, 1998). Both perspectives need to be considered when attempting to create governance structures and procedures which lead to improved performance. However the assumed link between corporate governance and corporate performance is not one which is universally accepted,(John & Senbet, 1998). When we thus seek “good practice” it should be based on identifying what works and to discern the broad principles that can be derived and the possibility of transferability.

Research conducted in the United Kingdom on both the accountability and enterprise aspects of corporate governance is somewhat limited. Many studies undertaken included company performance, measured in terms of accounting or stock market returns, as proxy indicators of whether governance mechanisms improve accountability. Whilst it is recognised that it is often not possible to observe directly whether governance structures influence accountability and enterprise, there are a number of key research questions which research could useful to investigate such as the relationship between board structure and firm performance.

Corporate governance in South Africa

King I was the first report released on corporate governance which became effective in 1994. King I focused on the highest standards of corporate governance in South Africa. The Institute of Directors formed the King Committee which was similar to the Cadbury Committee which was formed in England. These reports released by these committees were based on accountability, good practice, financial reporting, the need for audit committees, the responsibility of auditors and the association between auditors, board of directors and shareholders. The King I report was replaced by King II which became effective in March 2002. Enterprises were forced to comply with good corporate governance standards by focusing on transparency, accountability, responsibility, discipline, independence, social responsibility and fairness. King II focused on the “comply and explain” approach. King III was published in 2009 and became effective in 2010. King III was different to King II and currently adopts an “apply or explain” approach to corporate governance. The reason for the change is simply that the King Committee believed that the language more appropriately conveys the intent of the King Code from inception rather than comply or explain.

The philosophy of King III revolves around leadership, sustainability and corporate citizenship, (King Report 2009: 10).

- *Leadership*
  Good governance is essentially about effective leadership. Leadership is
  characterised by the ethical values of responsibility ,accountability, fairness and transparency. Responsible leaders direct company strategies and operations with a view to achieving sustainable economic, social and environmental performance, (King Report 2009: 10).

- *Sustainability*
  Where business, society and nature are interconnected and the sustainability of the company should be the primary moral and economic imperative, (King Report 2009: 11).

- *Corporate citizenship*
  Where companies operate as “persons” and should conduct their operation in a sustainable manner. Sustainability considerations are rooted in the South African Constitution, which is the basic social contract that South Africans have entered into, (King Report 2009: 11).

The importance of integrated reporting is highlighted in King III. Financial reporting focuses on the presentation of financial results at a particular point in time and no future information is provided about the company and its affairs. As a result of this, integrated reporting was included in King III where companies should provide future information and assurance to stakeholders regarding what lies ahead. Therefore King III recommends integrated sustainability performance and integrated reporting to enable stakeholders to make a more informed assessment of the economic value of the company,(King Report 2009: 13). This integrated report will detail how the company has positively and negatively impacted on the economic life of the community in which it operated during the year under review, often categorised as environmental, social and governance issues, (King Report 2009: 14)

Roles and responsibilities of boards

All companies should have effective corporate governance practices in place. Internationally, the Organisation for Economic Cooperation and Development (OECD) had developed a set of corporate governance principles. In South Africa, the third report on corporate governance became necessary because of the new Companies Act no. 71 of 2008 ('the Act') and changes in international governance trends. This Report, referred to as King III, was compiled by the King Committee with the help of the King subcommittees, (King Report 2009: 5).

The board is the custodian of corporate governance and is responsible for ensuring that the companies conform to effective corporate governance principles. The board is fully accountable to stakeholders including shareholders and also has a responsibility to oversee company strategy and policies.

The board charter should be guide the board which should be reviewed annually.

The board charter should include the following:

- The company's strategic objectives and direction should be clearly defined.
- The company should act in a responsible manner to all its stakeholders which are its employees, customers, suppliers and the community it serves.
- Ensure that all regulations, laws, business standards and accounting principles should be complied with.
- Business risks and processes should be managed effectively and the systems of internal controls are adequate, effective and in place. In other words the board should ensure that an effective risk management process is implemented.
- Board committees such as the nominations, remuneration and audit committees should be established to assist the board in carrying out its responsibilities and each committee has a term of reference which is set by the board.
- Executive performance should be based on whether the executives have achieved the strategic and financial objectives of the company.
- An independent board evaluation should be conducted which will improve the effectiveness of the board and its committees.

King III expands extensively on the role and functions of the board and states the following:

- The board should act as the focal point for and custodian of corporate governance, (King Report 2009: 29).
- The board should appreciate that strategy, risk, performance and sustainability are inseparable, (King Report 2009: 29).
- The board should provide effective leadership based on an ethical foundation, (King Report 2009: 30).
- The board should ensure that the company is and is seen to be a responsible corporate citizen, (King Report 2009: 30).
- The board should ensure that the company's ethics are managed effectively, (King Report 2009: 30).
- The board should ensure that the company has an effective and independent audit committee, (King Report 2009: 30).

- The board should be responsible for the governance of risk, (King Report 2009: 31).
- The board should be responsible for information technology (IT) governance, (King Report 2009: 31).
- The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards, (King Report 2009: 31).
- The board should ensure that there is an effective risk-based internal audit, (King Report 2009: 31).
- The board should appreciate that stakeholders perceptions affect the company's reputation, (King Report 2009: 31).
- The board should ensure the integrity of the company's integrated report, (King Report 2009: 31).
- The board should report on the effectiveness of the company's system of internal controls, (King Report 2009: 31).
- The board and its directors should act in the best interests of the company, (King Report 2009: 31).
- The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Companies Act, (King Report 2009: 33).
- The board should elect a chairman of the board who is an independent non-executive director. The chief executive officer of the company should not also fulfill the role of chairman of the board, (King Report 2009: 36).
- The board should appoint the chief executive officer and establish a framework for the delegation of authority, (King Report 2009: 36).

Profitability

Profitability is the residual of income less expenses. Increasing profits is the one of the major objectives for all companies. Companies that do not make profit will not be able to sustain itself and survive in the long run. Companies that record higher profits provide increased shareholder satisfaction and wealth by providing dividend payments to its shareholders. This increased dividend payments can lead to positive market sentiment and a have a positive impact on the share price of the company i.e. a share worth investing in. Management of companies has financial objectives to achieve which include attaining increased profitability. All companies public strive to improve its financial health by improving its profitability and cash flow.

The link between corporate governance and company value

The accounting scandals and corporate failures globally resulted in an increased interest in corporate governance. This interest is mainly in the association between sound or effective corporate governance and company value. Gompers, Ichii and Metrick (2003) found a significant association between a corporate governance index built from 24 provisions and stock returns. They reckon that an investment strategy where investors buy firms with the highest ranks in such index would yield substantial abnormal returns of 8.5%.They also observe that firms with weaker governance measures have generally lower accounting-based performance measures, lower Tobin Qs, and are engaged more actively in acquisitions and capital investments. Tobin Q's ratio refers to the market value of a company divided by the replacement value of the firm's assets. A low Q (between 0 and 1) means that the cost to replace a firm's assets is greater than the value of its stock which implies that the stock is undervalued, (Tobin's Q Ratio, Investopedia). Along the same lines, Black (2001) found a similar relation that a change in corporate governance scores from the lowest to the highest rank significantly increases firm market value. One may argue that performance may drive to a certain extent a stronger compliance with corporate governance provisions.

Shareholder's approach

The board of directors and managers are appointed to represent the interests of shareholders. Their mandate is to achieve the following whilst carrying out their duties:

- Maximising profits available for distribution to shareholders.
- Safeguarding the wealth of investors through increased value of shares.
-

The shareholder value approach encompasses the idea that companies should pursue shareholder wealth with a long-run orientation that seeks sustainable growth and profits based on responsible attention to the full range of relevant stakeholder interests (Ho, 2010). The main aim of the enlightened shareholder value approach is therefore the maximisation of shareholder wealth.

A study by Gompers, et al. (2003) concluded that companies with strong shareholder rights yielded annual returns that were 8.5 percent greater than those with weak rights and also more democratic firms are seen to enjoy higher valuations, higher profits, higher sales growth, and lower capital expenditures. Poorly governed firms are thus, expected to be less profitable, have greater bankruptcy risk, lower valuations and pay out less to their shareholders, while well-governed firms are expected to have higher profits, be less at risk of bankruptcy, have higher valuations and pay out more cash to their shareholders. Another study by Klapper, Leora and Love (2002)entitled "Corporate Governance, Investor Protection, and Performance in Emerging Markets" show that better governance is highly correlated with better operating performance and market valuation as measured by ROA and Tobin's Q respectively. Their results suggest firms in countries with poor investor protection can use provisions in their charters to improve their corporate governance which may improve their performance and valuation.

Another measure of good corporate governance is the separation of the roles of chief executive from that of the board chair. In a study conducted by, Richard Bernstein, the Chief Strategist at Merrill Lynch, found that firms that have separate chief executive and board chair roles perform better than firms that combine both roles in what is also called chief executive officer duality. Bernstein's study thus confirms the widely held notion that firms that have different people serving as chair and chief executive officer respectively outperform those that concentrate the two roles in one person.

Black, Jang and Kim (2006) found that good corporate governance is causally linked to higher share prices in emerging markets. Investors are willing to pay a premium for companies with a good corporate governance record and good corporate governance appears to reduce volatility and reduce some elements of investment risks. Good corporate governance enhances corporate financial performance, firm stock market performance and shareholder value. Ammann, Oesch and Schmid (2011) found that better corporate governance practices are reflected in both statistically and economically significantly higher market values. Other studies have found negative or no correlations between corporate governance and company performance. Erkens, Hung and Matos (2010) found that companies with independent boards experienced worse returns during the financial crisis of 2008.
It is apparent that the relationship between corporate governance and company performance is not clearly established.

Research methodology

The research design was based on a descriptive survey constructed on results obtained from questionnaires so as to describe the application of corporate governance and profitability in the Sun International Group of companies as well as hypothesis testing and correlation. Selected independent variables (board responsibility) of corporate governance and dependant variables relating to financial performance (profitability) were used. The research was conducted through the use of quantitative techniques including descriptive and inferential statistics where possible correlations amongst the phenomena were tested.

Sampling designs and techniques

Sampling designs could be conducted through the use of probability sampling or non-probability sampling. In the case of probability sampling, each segment of the population will be represented. The research used simple random sampling i.e. sample members were chosen randomly for inclusion in the sample, with each population element having an equal probability of being selected. The population included ninety four staff members comprising employees in diverse levels of the organisation. It was anticipated that the results reflected the perceptions of the organisation.

Demographic and background variables

The background variables in this study were gender, age and years of work experience. Gender is a qualitative categorical variable that divides therespondents into either "female" or "male" groups. The gender categories have names but no numeric order nor mathematical properties and the measurement level for the gender variable is nominal. The variables of age and work experience are quantitative continuous variables, as they can assume decimals or fractions.

Sources of data

Both primary and secondary data sources were used

- Primary data -was the data directly from respondents through questionnaires.
- Secondary data - was used as a supplementary data source and was obtained from annual reports which enabled the researcher to draw conclusions and make recommendations.

Data collection

Data collection was conducted through a survey. The targeted respondents included Sun International staff members, directors, and managers. Ninety four people were surveyed during the data collection process. A closed-ended questionnaire with saturated type questions which are finitely answered was prepared and accompanied by a covering letter informing the respondents of the reasons for the research also explaining that it was voluntary and they were in not in any way obliged to participate. All ethical considerations were met.

A five point Likert rating scale was used to assess the responses. The rating scale included dimensions from strongly disagreeing to strongly agreeing (1-5).

The questionnaire was as brief as possible and sought to solicit only information that was essential to the research. The questionnaire was also simple, easy to read and understand. Clear instructions were provided on how to respond. Language that is simple, clear and unambiguous was used.

After the questionnaire was designed, respondents were emailed for their responses or personally contacted. Respondents were given ample time to provide their responses.

The questionnaire included the following:

- Section A: Demographic characteristics of respondents i.e. gender, age and work experience.
- Section B: Typical statements specific to corporate governance (board responsibility) and profitability will be assessed using the Likert scale which will include:
  - A strong board is in place that governs the company.
  - The Board ensures that integrity permeates across the

company and that the company's vision, mission and objectives are ethically sound.
- The board of directors has an influence on profitability.
- Board is actively involved in formulating long-term strategies.
- Board reviews key executive and director remuneration.
- Board effectively oversees potential conflicts of interest including related-party transactions.
- Board ensures the integrity of the company's financial reporting.
- Board ensures proper disclosure and actively communicates with shareholders and stakeholders.
- Board ensures the effectiveness of various governance practices.
- The company is making high profits.

Analysis and presentation

Data processing - data obtained from the questionnaires was edited (identified omissions, ambiguities and errors in responses), coded (identified a coding plan i.e. how the responses related to variables, and tabulated these to ensure accuracy). SPSS version 21 software was used to analyse the data. A p value of <0.05 is considered statistically significant. Two dimensions were analysed i.e. board responsibility and profitability. Hypothesis testing was through Chi-Square correlation to test the association between responsibility and profitability.

Empirical testing

Empirical testing was conducted using the Kolmogorov Smirnov test after testing the distribution, and was followed by using Spearman's Rank Order Correlation (rho) where the strength of the association between corporate governance and profitability could be determined. This method of testing can also distinguish between positive or negative correlations between corporate governance and profitability. Further tests i.e. Mann Whitney U test were used to check for significant differences and the Kruskal Wallis Test was also used. The hypotheses were tested using the Chi-square goodness of fit test.

Ethical considerations

Ethical issues were considered as part of the research. A formal correspondence requesting permission to conduct the research was sent to the director of Corporate Services and Legal. This correspondence also detailed the purpose of the study and requested permission to continue with the study.

Results

Questionnaires were sent to ninety four employees of the company. Of the ninety four employees, fourty seven responded (n=47). The research results were presented using analytical methods and descriptive statistics. Frequency tables were calculated using the Statistical Package for Social Sciences (SPSS, Version 21) to gain an overview of the perceptions of respondents with respect to board responsibility and profitability. The descriptive statistics also included the mean, mode, median and standard deviations. These statistics served to confirm the results of the frequency tables. It was necessary to test if the data comes from a normal distribution or not, using the Kolmogorov Smirnov test. After establishing the distribution, the second step was to proceed to the type of statistical tests. The implication of this is that as far as the scores are concerned, it is required to use Non-parametric statistics. Tests such as the Mann-Whitney U test, Chi-square and the Kruskal Wallis test were used. Spearman's Rank Correlation (rho was also used to test the correlations). The hypotheses were tested using the Chi-square goodness of fit test.

Reliability and validity

Cronbach's Coefficient Alpha was used to establish the Interitem Consistency Reliability for the study variable of board responsibility. The Alpha Coefficient of 0.913 is considered to be very good. The Profitability Variable had only one question. Accordingly a Reliability Index was not computed. Validity was established using Face Validity. Face validity is the extent to which, on the surface, an instrument looks like it's measuring a particular characteristic, (Leedy & Ormrod, 2010: 92). The questionnaire was given to senior employees pronounced that it appears to measure what it is supposed to measure.

Descriptive statistics

Descriptive Statistics using frequencies and percentages was applied to ascertain the characteristics of the sample and the responses to the questions. The Mean and Standard Deviation was used to determine the overall perceptions of the respondents to the study variables (board responsibility and profitability).

Characteristics of the sample
Table 1 below reflects the characteristics of the sample.

Table 1 : Frequency distribution

		n	%
Age	18 - 24	1	2.2%
	25 - 34	9	20.0%
	35 - 44	20	44.4%
	45 - 54	13	28.9%
	55 and above	2	4.4%
Gender	Male	19	42.2%
	Female	26	57.8%
Work Experience	10 and below	6	13.3%
	11 - 20	20	44.4%
	21 - 30	14	31.1%
	31 and above	5	11.1%

Age
The age categories in years ranged from 18-24, 25-34, 35-44, 45-54 and 55 and above. The majority of the participants fell in the age group 35 - 46 (44.4%) followed by the 45 - 54 group (28.9%) and the 25 - 36 group (20%). There was only one participant in the 18 - 24 age group.

Gender
Most of the subjects were female comprising 57.8% with males comprising 42.2%.

Work Experience
The work experience categories in years ranged from 10 and below, 11-20, 21-30 and 55 and above.
The majority of the participants fell in the age group 11-20 (44.4%) followed by the 21-30 group (31.1%), 10 and below group (13.3%) and 31 and above (11.1%).

Responses to the questions

Responses to the questions relating to board responsibility and profitability are shown in Tables 2 and 3 respectively.

Table 2: Frequency Distribution of the responses to the questions on board responsibility

		Strongly disagree		Somewhat disagree		Neither agree nor disagree		Somewhat agree		Strongly agree		Total	
		n	%	n	%	n	%	n	%	n	%	n	%
1.	A strong board is in place that governs the company	0	0.0%	1	2.2%	6	13.3%	14	31.1%	24	53.3%	45	100.0%
2.	The board ensures that integrity permeates across the company and that the company's vision, mission and objectives are ethically sound	0	0.0%	2	4.4%	9	20.0%	19	42.2%	15	33.3%	45	100.0%
3.	The board of directors has an influence on profitability	0	0.0%	1	2.2%	6	13.3%	25	55.6%	13	28.9%	45	100.0%
4.	Board is actively involved in formulating long-term strategies	0	0.0%	1	2.2%	6	13.3%	17	37.8%	21	46.7%	45	100.0%
5.	Board reviews key executive and director remuneration	0	0.0%	1	2.2%	10	22.2%	10	22.2%	24	53.3%	45	100.0%
6.	Board effectively oversees potential conflicts of interest including related-party transactions	0	0.0%	4	8.9%	14	31.1%	20	44.4%	7	15.6%	45	100.0%
7.	Board ensures the integrity of the company's financial reporting	0	0.0%	2	4.4%	5	11.1%	13	28.9%	25	55.6%	45	100.0%
8.	Board ensure proper disclosure and actively communicate with shareholders and stakeholders	0	0.0%	2	4.4%	7	15.6%	14	31.1%	22	48.9%	45	100.0%
9.	Board ensures the effectiveness of various governance practices	0	0.0%	1	2.2%	8	17.8%	14	31.1%	22	48.9%	45	100.0%

1. *A strong board is in place that governs the company.*
   Most of the subjects (84.4%) agree/strongly agree that a strong board is in place that governs the company followed by those who neither agree nor disagree (13.3%) with only one subject (2.2%) who somewhat disagrees.

2. *The board ensures that integrity permeates across the company and that the company's vision, mission and objectives are ethically sound*
   Most of the subjects (75.5%) agree/strongly agree that the board ensures that integrity permeates across the company and that the company's vision, mission and objectives are ethically sound followed by those who neither agree nor disagree (20.0%) with only two subjects (4.4%) who somewhat disagrees.

3. *The board of directors has an influence on profitability*
   Most of the subjects (84.5%) agree/strongly agree that the board of directors has an influence on profitability. (4.4%) of the subjects neither agree nor disagree with only one subject (2.2%) who somewhat disagrees.

4. *Board is actively involved in formulating long-term strategies*
   Most of the subjects (84.5%) agree/strongly agree that the board is actively involved in formulating long-term strategies followed by those who neither agree nor disagree (13.3%) with only one subject (2.2%) who somewhat disagrees.

5. *Board reviews key executive and director remuneration*
   Most of the subjects (75.5%) agree/strongly agree that the board reviews key executive and director remuneration followed by those who neither agree nor disagree (22.2%) with only one subject (2.2%) who somewhat disagrees.

6. *Board effectively oversees potential conflicts of interest including related-party transactions*
   44.4% of the subjects agree that the board effectively oversees potential conflicts of interest including related-party transactions followed by those who neither agree nor disagree (31.1%) with 15.6% strongly agreeing and 8.9% of the subjects who somewhat disagrees.

7. *Board ensures the integrity of the company's financial reporting*
   Most of the subjects (84.4%) agree/strongly agree that the board ensures the integrity of the company's financial reporting followed by those who neither agree nor disagree (11.1%) with two subjects (4.4%) who somewhat disagrees.

8. *Board ensures proper disclosure and actively communicate with shareholders and stakeholders*
   Most of the subjects (80.0%) agree/strongly agree that the board ensures proper disclosure and actively communicates with shareholders and stakeholders followed by those who neither agree nor disagree (15.6%) with only two subjects (2.2%) who somewhat disagrees.

9. *Board ensures the effectiveness of various governance practices*
   Most of the subjects (80.0%) agree/strongly agree that the board ensures the effectiveness of various governance practices followed by those who neither agree nor disagree (17.8%) with only one subject (2.2%) who somewhat disagrees.

Table 3: Frequency of the responses to the profitability question

		Strongly disagree		Somewhat disagree		Neither agree nor disagree		Somewhat agree		Strongly agree		Total	
		n	%	n	%	n	%	n	%	n	%	n	%
1.	B10 The company is making high profits	0	0.0%	7	15.6%	11	24.4%	24	53.3%	3	6.7%	45	100.0%

1. *The company is making high profits*
   The results show that 60% of the subjects agree/strongly agree that the company is making high profits followed by 24.4% who neither agree nor disagree with 15.6% who somewhat disagree.

Mean and Standard Deviation

The overall response to the study variables are shown in Table 4 below.

Table 4: Means and Standard Deviation of the study variables

Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	45	2.00	5.00	3.5111	.84267
Board Responsibility	45	2.67	5.00	4.1778	.63934

The mean score on Profitability (M = 3.511) indicate that subjects agree that the company is making high profits. The standard deviation (Sd = 0.84267) reveals variation in the responses. Some subjects somewhat disagree (M = 2.00) that the company is making high profits while others strongly agree (Max = 5.00). The mean score on board responsibility (M = 4.1778) reveals a high level of agreement that the board is fulfilling its responsibility. The standard deviation (Sd = 0.63934) shows a variation in the responses with some subjects disagreeing somewhat (Min. = 2.67) while others strongly agree (Max. = 5.00) that the board is fulfilling its responsibility.

Inferential Statistics

For the Inferential Statistics, a Normality Test was conducted to determine whether the data follows a Normal Distribution. The result showed that the data does not follow a Normal Distribution. As a result, Nonparametric Statistics in the form of Spearman's Rank Order Correlation (rho), Mann Whitney U Test and Kruskal Wallis Test was used.

To test the Relationship between board responsibility and profitability as well as the influence of the biographic variables on board responsibility and profitability, hypotheses were formulated.

Hypothesis 1

Ho: There is no correlation between board responsibility and profitability.

H1: There is a statistically significant correlation between board responsibility and profitability.

The results are shown in Table 5 below.

Table 5: Spearman's Correlation between board responsibility and profitability

		Spearman's rho		
		Profitability	p	N
Board Responsibility	Profitability	.446**	.002	45

**. Correlation is significant at the 0.01 level (2-tailed).

The results indicate that there is a positive and moderate statistically significant correlation between board responsibility and profitability (rho = 0.466; $p < 0.01$). Accordingly, hypothesis 1 is not supported and we reject the null hypothesis and accept the alternate hypothesis.

Hypothesis 2

Ho: There is no significant difference in the perceptions of profitability and board responsibility among the age groups.

H1: There is a statistically significant difference in the perceptions of profitability and board responsibility among the age groups.

The results are shown in Table 6 below.

Table 6: Kruskal Wallis Test – Profitability and board responsibility by age groups

	Chi-Square	df	P
Profitability	2.453	2	.293
Board Responsibility	4.507	2	.105

a. Kruskal Wallis Test

b. Grouping Variable: Age

The results show no statistically significant difference in the perceptions of profitability (Chi – Square = 2.453; df = 2; p > 0.05) and board responsibility (Chi – Square = 4.507; df = 2; p > 0.05) among the age groups.
Accordingly hypothesis 2 is supported and we accept the null hypothesis and reject the alternate hypothesis.

Hypothesis 3
Ho: There is no significant difference in the perceptions of profitability and board responsibility between males and females.

H1: There is a statistically significant difference in the perceptions of profitability and board responsibility between males and females.

The results are shown in Table 7 below.

Table 7: Mann Whitney Test – Profitability and board responsibility by gender

	Mann-Whitney U	Z	p
Profitability	231.500	-.391	.696
Board Responsibility	162.500	-1.950	.051

a. Grouping Variable: Gender

The results in Table 4.7 show no statistically significant difference in the perceptions of profitability (Mann Whitney U = 231.500; Z = -0.391; p > 0.05) and board responsibility (Mann Whitney U = 162.500; Z = - 1. 950, p > 0.05).
Accordingly hypothesis 3 is supported and we accept the null hypothesis and reject the alternate hypothesis.

Hypothesis 4
Ho: There is a no statistically significant difference in the perceptions of profitability and board responsibility among the work experience groups.

H1*:* There is a statistically significant difference in the perceptions of profitability and board responsibility among the work experience groups. The results are shown in Table 8 below.

Table 8: Kruskal Wallis Test – Profitability and board responsibility by work experience groups

	Chi-Square	df	p
Profitability	1.465	3	.690
Board Responsibility	8.386	3	.039

a. Kruskal Wallis Test

b. Grouping Variable: Work Experience

The results in Table 8 show a statistically significant difference in the perception of board responsibility (Chi – Square = 8.386; df = 3; $p < 0.05$) among the work experience groups. No statistically significant difference was found in the perception of profitability (Chi – Square = 1.456; df = 3; $p > 0.05$) among the work experience groups.

Accordingly Hypothesis 4 was not supported for board responsibility thus rejecting the null hypothesis and accepting the alternate hypothesis. Hypothesis 4 was supported for profitability and thus accepting the null hypothesis and rejecting the alternate hypothesis.

Conclusions and recommendations

The primary objective of the research was to determine the extent to which the board is fulfilling its responsibility, how different subjects perceive the profitability of the company and to assess if there is a relationship between board responsibility linked to effective corporate governance and profitability in the Sun International Group of companies. Modern corporations should embed effective corporate governance in its everyday activities. Those organizations that deliver on their objectives through good corporate practices, have integrity, are ethical in their conduct and have strong accountability mechanisms will always be attractive to investors and stakeholders. The importance of good corporate governance was stressed by the Organisation for Economic Cooperation and Development (OECD):

If countries are to reap the full benefits of the global capital market, and if they are to attract long-term "patient" capital, corporate governance arrangements must be credible and well understood across borders. Even if companies do not rely primarily on foreign sources of capital, adherence to good corporate governance practices will help improve the confidence of domestic investors, may reduce the cost of capital, and ultimately induce more stable sources of financing. In eight of the nine questions posed on board responsibility, more than 75% of the respondents agree/strongly agree with an effective corporate governance environment pertaining to the board fulfilling its role and responsibilities. The exception being the board effectively overseeing potential conflicts of interest including related-party transactions in which 44.4% of the subjects agree.

Based on the results above, we can conclude that there is a relationship between effective corporate governance and profitability in the Sun International Group of companies. In assessing the correlation between board responsibility and profitability, The Spearman's Correlation shows a moderate statistically significant correlation between board responsibility and profitability.

The Kruskal Wallis Test for profitability and board responsibility by age groups shows no statistically significant difference in the perceptions of profitability and board responsibility among the age groups. The Mann Whitney Test for profitability and board responsibility by gender show no statistically significant difference in the perceptions of profitability and board responsibility. Kruskal Wallis Test for profitability and board responsibility by work experience groups show a statistically significant difference in the perception of board responsibility among the work experience groups. However no statistically significant difference was found in the perception of profitability among the work experience groups.

Recommendations

Effective corporate governance will result in accountability, transparency and independence in a company's auditing and accounting processes. The board and its directors are thus a key component of corporate governance. These boards ensure that shareholders wealth is maximised through good corporate practices and that they are full accountable to shareholders for achievement of the company financial objectives of the company. Effective corporate governance is also very important for sustainability of the company and the economy. Organisations should strive to implement effective corporate governance mechanisms. The corporate governance practices of all organisations should be continuously improved. All companies should develop and implement effective governance processes. By doing so, companies will ensure that all interested parties are satisfied with the levels of transparency and accountability.

Also very important to success in any company is the existence of a good psychological contract with employees in which there is transparency, mutual appreciation and understanding between employer and employees. In such a scenario an organisation is likely to be more effective (Grobler & Nicolaides, 2014).

Companies must report the accurate affairs of their business and financial reporting, which must possess integrity. The fall of Enron largely dealt with inaccurate financial reporting. Enron filed for bankruptcy after it was found that the company's financial statements were misstated i.e. earnings and its balance sheet were altered to reflect a favourable position. Effective corporate governance should result in a company raising its profitability levels. Boards that have the requisite skill and competency can lead the company to success and sustainability. Boards that have an ethical vision, mission and strategy, will thrive in their quest for success.

In South Africa, companies that apply the King III principles of leadership, sustainability and being good corporate citizens will attract institutional investors and individual shareholders. Effective communication can also lead to sound corporate governance. Shareholders and stakeholders appreciate an honest, transparent relationship with the company and it's board. Shareholders and stakeholders should be apprised of any key transaction the company undertakes which has a material effect on the business. On the basis of the results of this study, it is recommended that companies should institute even more effective corporate governance in order to increase their performance even more.

Suggestions for future research

This study only involved the Sun International Group of Companies. The study could with slight modifications also be replicated in other sectors of the economy for companies listed on the Johannesburg Stock Exchange. Similar studies could also be conducted for other stock exchanges listed companies across the globe.

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