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BOARD EVALUATION – RAISING THE BAR IN SOUTH AFRICA

Article by CGF Research and reviewed by Goldman Judin Inc.

Over the last two decades, much emphasis has been placed on corporate governance and many countries across the world have specifically embarked upon much needed reform in this area. Indeed, our country has had its own challenges regarding better governance practices, which was probably preempted by the period when sanctions against South Africa came to an end at the time of Nelson Mandela's release in February 1990.

Since then, South Africa has seen a flurry of activity to raise the bar pertaining better governance standards, practices and expected behavior. For South Africa, it started with the writing of the new Constitution and the Bill of Rights which was drawn up in 1994 and took effect in February 1997; followed by numerous corrective, as well as new legislation for all South African citizens. The measures to improve our governance -- within a new legal governance framework -- were necessary in order to ensure parity amongst all South African citizens and that equality as well as all these rights remain protected; be these human rights, environmental rights or business and trading rights (King I and King II were instrumental in establishing some of the ground rules for businesses and their stakeholder's rights).

Where the issue of rights is concerned, there is no doubt that protecting these rights is of critical importance; as the very essence of life, safety, security and sustainability depends upon this much needed protection.

Regrettably, so often is the case that the people who are empowered to lead -- be this in government, business or even social settings -- abuse their leadership duties and they fail to protect their constituencies. The failure of leadership to safeguard these rights is caused mostly through, for example:

- disregarding legislative frameworks,
- power imbalances and authoritarianism,
- ignoring accepted / existing policies and procedures,
- violating delegation of authority,
- conflicts of interest,
- poorly informed decision making and acting unreasonably,
- selfish intent / motivation, and
- poorly appointed, unqualified and inexperienced individuals placed in leadership positions.

Against this background, it is not surprising why so many organisations (and countries) are cited as offenders of good governance practices. Simply put, boards of directors who disregard proper governance measures are generally dysfunctional, with defunct leaders who must be held directly accountable for the organisation's demise. Clearly no modern democratic society can afford to allow directors and similar types of individuals in leadership positions to exploit their power at the cost of undermining the fundamental

PROUDLY SOUTH AFRICAN

rights of their stakeholders. For these reasons, amongst other, it is imperative that directors across the board are regularly evaluated by their peers to ensure that they have properly fulfilled all their fiduciary obligations and are held accountable for their duties and actions (in much the same way we are expected to evaluate our politicians at the polls).

Undoubtedly, being an effective director has become an increasingly difficult task. And holding such a position in an increasingly litigious and regulatory environment -- with complex social structures -- is no small feat. Directors have to know more about the business than was previously the case, and they must recognize the need for a new economic paradigm which infuses all the well-being of the social, economic and environmental components.

An organisation's success therefore depends largely on an effective board, and it is imperative that the board is vigorously assessed for its collective and individual members' performance and improvement. Indeed, board evaluation is becoming more common -- and a valuable process no matter the size or type of business -- as directors seek ways to become better decision-makers and ensure good governance practices within their organisations and their supply chain.

"At the time, when you are being dissected and judged it is pretty brutal, but in hindsight it is great and – it sounds clichéd – you do come out the other side better and stronger".

Kate Bosworth
(American actress)

When performed effectively, board evaluation provides a platform for directors to assess and identify appropriate board and management roles, and assists in addressing underlying issues that may hamper the effectiveness of an organisation's board. Boards that merely fulfil regulations that call for board evaluations by, for example, a simple "tick-box" approach, relinquish the opportunity to improve the board and the organisation they serve at various levels.

There are many benefits organisations derive from conducting regular board evaluations. Some of these benefits include assisting the improvement of leadership and performance by the board, improving efficiency of the board operations, facilitating board teamwork and identifying the knowledge gaps which should be addressed through appropriate mentoring and interventions. Board evaluation is the most effective way to ensure that board members understand their duties and obligations and employ effective good governance practices. Furthermore, efficient board evaluations assist in raising the board to a higher level of performance, which must ultimately ensure the organisation's strategic success and sustainability. The success of board evaluations depends largely on the people involved - specifically the Chairperson, the board members and the evaluator who are responsible for controlling the process.

The pursuance of better corporate governance practices is becoming more common as informed stakeholders (including investors) refuse to be poorly served by sub-standard boards and their members who do not fulfill their fiduciary duties, not least those who are unqualified for these positions. As more organisations and their defiant directors flout the stated requirements for board evaluations, including the respective recommendations found in the King Report on Governance for South Africa 2009 (King III), they should be warned of the consequences attached to their selfish practices and blatant disregard of the law.

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About CGF Research Institute (Pty) Ltd

CGF is a Proudly South African company that specialises in conducting desktop research on Governance, Risk and Compliance (GRC) related topics. The company has developed numerous products that cover GRC reports designed to create a high-level awareness and understanding of issues impacting a CEO through to all employees of the organisation.

Through CGF's strategic partners -- supported by our Corporate Patrons *Rifle-shot Performance Holdings and DQS South Africa* -- our capabilities extend to Board evaluation, GRC management consulting, executive placements, executive mentoring, company secretariat and the facilitation of Corporate Governance and Risk Awareness workshops. To find out more about CGF, our patrons and our associated services, please access *www.cgf.co.za*, *www.corporate-governance.co.za* or www.governanceconnect.mobi

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