

Johannesburg
12 November 2020

DIRECTORS’ SENTIMENT INDEX™ REPORT: 5TH EDITION – CGF’s observations from a governance perspective

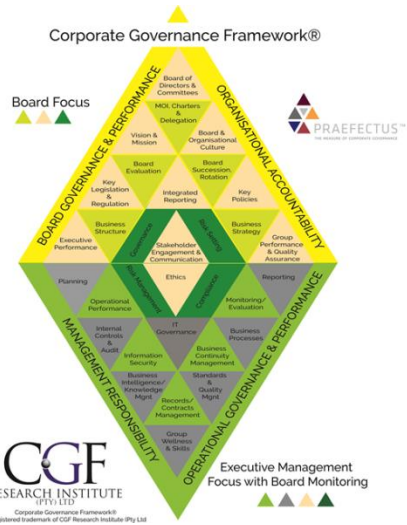
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A review of the Institute of Directors in South Africa (‘IoDSA’)s recently released report for 2020 raises some interesting observations from a governance perspective. It should be noted that the study was concluded prior to the nation-wide lockdown and national state of disaster due to the Corona virus (‘Covid-19’) pandemic. It is likely that the sentiments expressed by respondents may have been significantly more pessimistic had the study been concluded in the second half of 2020.

The findings of the report illustrate the views of 454 South African directors and track the changes in business sentiment over the past 5 years across various categories, comprising Economic, Business, Governance and Directorship factors.

The Governance category, although ranked highest of the 4 categories, shows a steady downward trend from a score of 3.6 in 2014 to 3.3 in 2020, out of a possible maximum score of 5. Responses to the question in the Governance sector: *“What do you consider to be the three main governance challenges currently facing your business?”* included a variety of responses by some of the respondents which is provided in the table below.

As a recognised thought leader and governance solutions provider in South Africa, CGF has reviewed these questions and their related responses from the perspective of having implemented a Corporate Governance Framework® for various organisations.



QUESTION: <i>“What do you consider to be the three main governance challenges currently facing your business?”</i>	
RESPONSE	CGF’s RESPONSE
<i>None. My business is not challenged by any governance factors</i>	It is interesting to note that 34% of respondents indicated that their business is not challenged by any governance factors. Based on CGF’s interactions with directors over recent years, a response of this nature may be a case of “you don’t know what you don’t know”.

	<p>When organisations have been asked by CGF what their organisation’s governance framework entails, many would offer their organogram, board charter, delegation of authority or company secretary’s job description as a response.</p> <p>From these responses it is clear that these organisations do not have a thorough understanding of the GRC status for every area of their business. As such, the Board of Directors (and therefore the organisation) will be unnecessarily exposed to unforeseen and unanticipated risks. A well implemented Corporate Governance Framework® can assist the Board in ensuring that the organisation has identified and is mitigating important “governance factors” well beyond the afore-mentioned documents.</p>
<p><i>Lack of sustainable thinking</i></p>	<p>Visionary leaders appreciate the importance of the Corporate Governance Framework® in nurturing organisational sustainability by driving values-based decision-making to “play the long game”.</p> <p>The framework helps to break down siloed thinking and promotes decision-making which is aligned to the organisation’s corporate vision.</p> <p>It is important to ensure that the organisation’s Corporate Governance Framework® addresses sustainability issues and highlights the effective and efficient deployment of all resources, as contemplated under the 6 capitals model, on a balanced and coordinated basis. In this way, integrated thinking is promoted such that the longer term impact of the organisation’s actions can be carefully considered and monitored.</p>
<p><i>Too cumbersome and time consuming</i></p>	<p>Too many organisations (and indeed directors) view governance as just an additional layer of bureaucracy, not truly appreciating that governance speaks to the way in which an organisation is directed and controlled. The Corporate Governance Framework® is a useful management tool which supports strategic value by strengthening performance and optimising the governance of the organisation’s people and processes. The objective is to improve efficiencies and productivity in the long term interests of the legitimate stakeholders.</p>
<p><i>Lack of understanding (King IV™)</i></p>	<p>The Corporate Governance Framework® should be aligned to the legislation, rules, policies and codes of best practice applicable and relevant to the organisation. As such, it provides a meaningful and practical understanding of how and where the organisation either meets or falls short of the applicable local and/or international GRC prescripts, including the requirements of King IV™ as may be necessary.</p>

<p><i>Unethical behaviour (bribery and corruption)</i></p>	<p>The implementation of a Corporate Governance Framework® strengthens the organisation’s combined assurance approach in that it introduces thirty-two lines of defence supported (or not) by organisational evidence. The segregation of duties in performing governance assessments in the framework while recognising the inter-connectivity between different areas of the business further underpins the usefulness of this tool in driving transparent and ethical behaviour.</p> <p>Moreover, ethics as an organisational discipline lies at the heart of the Corporate Governance Framework®. As such, the framework assists business leaders (management and the board) in assessing whether a rules-based mentality permeates the organisation or whether a culture of accountability and “speaking up” is being inculcated within the organisation.</p>
<p><i>Lack of understanding the overall benefits</i></p>	<p>Based on interactions with directors over the years, CGF can attest to this response highlighted by the survey. Against the backdrop of a complex and evolving business environment, the implementation of a Corporate Governance Framework® enables boards to become more purposeful and agile in their decision-making while better appreciating the risks facing the organisation.</p> <p>Moreover, a real-time GRC dashboard provided by a Corporate Governance Framework® promotes a common understanding of the organisation’s GRC maturity and assists in prioritising areas for improvement.</p>
<p><i>Too costly or the perception of being too costly</i></p>	<p>This response begs the question: can the organisation afford the cost of failed governance?</p> <p>The evidence and dire outcomes of failed governance processes are very evident in the South African public and private sectors. The cost of such failed governance is yet to be determined.</p> <p>CGF would argue that the benefits of implementing and maintaining a Corporate Governance Framework® far outweigh the costs.</p> <p>The implementation of a Corporate Governance Framework® drives organisational resilience by supporting evidence-based decision-making to drive accelerated strategy implementation. The business intelligence gained from performing the governance assessments required by the framework leads to a more engaged workforce, integrated thinking, increased productivity and quicker execution. The return on investment is evident.</p>

The above highlighted outcomes of the IOD's Directors' Sentiments Index, underline CGF's concerns about the general lack of understanding of governance and the critical role it plays in ensuring that an organisation is able to sustainably and responsibly deliver on its strategic mandate.

The board's ability to direct and control an organisation can be simplified by implementing a Corporate Governance Framework®. In this way, the board will truly understand that good governance is a business enabler, rather than a business inhibitor.

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