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## **POOR GOVERNANCE AND LIPSERVICE CREATES UNSUSTAINABLE ORGANISATIONS**

**Article by Terrance M. Booysen**

It is a fact; since the collapse of so many iconic organisations across the world, the subject of corporate governance has intensified. But have boards and their directors taken the issue of practicing good governance seriously enough, or have they merely paid lip service to this critical area of business and placed a veneer over their usual business practices?

In South Africa the topic of corporate governance appears to have lost a lot of traction, notwithstanding the sterling efforts and recommendations found in the Corporate Governance Codes documented in King III, and indeed what may be expected in King IV which will be published in draft later this year. Almost every day South Africa is bombarded with examples where poor governance practices are exposed in government departments, private and listed companies, universities, schools, sport fields and even churches - in fact in all areas of our beleaguered society. South Africa's moral compass has lost direction, and our leadership across most sectors has degenerated to such an extent that it is becoming increasingly difficult to see the light at the end of the tunnel. Expectedly, most leaders claim their allegiance to moral behaviour and good governance practices; but few are willing to have these claims publically tested. Moreover, it is disappointing that so many leaders lack the political will -- or desire -- to make the changes required to reverse South Africa's current and downward trend, evidenced for example in the continual and adverse findings received from the Public Protector's office, including the qualified audits from the Auditor General of many government departments.

But public entities are not the only culprit of poor governance; many corporates fail to provide a true reflection of their own daily malpractices, mismanagement and greed. By examining the annual Integrated Reports provided by many South African companies, which are so often presented in a glowing light and portraying the good side of the company, in reality the 'dark' facts are not covered. This may be evidenced by companies setting inadequate compliance controls, inappropriate operational plans against deliverable targets, lowering the bar and standards, awarding excessive remuneration packages to undeserving directors, a continual practice of environmental polluting, anti-competitive behaviour, unfair labour practices and even inaccurate annual reporting are just a few examples.

*"We have to be bold in our national ambitions. First, we must win the fight against poverty within the next decade. Second, we must improve moral standards in government and society to provide a strong foundation for good governance. Third, we must change the character of our politics to promote fertile ground for reforms."*

**Gloria Macapagal-Arroyo**  
*(President of the Philippines from 2001-2010)*

Another area for major concern is the level of directors' experience -- particularly in government owned companies -- which is inadequate or completely lacking. This has become a major problem in South Africa and the financial losses against the director's incompetency is costing taxpayers billions of Rands. This trend does not appear to be getting any better any time soon, and it is seriously eroding the sustainability of many organisations and indeed the capabilities of our country. Unfortunately, many directors still treat

corporate governance merely as a 'tick-box' exercise, and they don't subscribe to the true value good governance can bring to an organisation. This is clearly evident when a board undergoes its annual evaluation and the process is conducted making use of a one-page question sheet that lists the same basic self-evaluation questions each year. Of course a director who self-assesses himself will come out all shiny. But in all truth, approaching a board evaluation on this basis has little meaning and it adds no value to the intended outcome of improving the skills and knowledge of the directors, not least also for the ultimate sustainability of the organisation. Simply put, not only is this type of evaluation a complete waste of time to appease a select few, it also provides a false impression of the board's true ability to lead the organisation with superficial governance. Given these type of circumstance, directors are not being put through their paces, nor are they being challenged to show their true value to the board and the organisation which they are supposed to be serving. Boards who follow this menial process show little regard for proper governance, neither are they genuinely willing to learn from the findings, and change themselves for the better. This lack of seriousness and lack of diligence to 'stretch' the director for the benefit of the organisation further exacerbates the leadership crisis in South Africa, not least it also suggests that *these* directors are in breach of their fiduciary duties owed to the organisation. As with most things in life, one rotten -- or self-serving director -- begets another, and eventually the organisation will slump into complacency, mediocrity and dysfunction.

Holding directors accountable, especially those in the large organisations, appears lacking in many respects; often the culprits of poor governance are let off the hook or at best, gently rapped on the knuckles. There must be ground rules firmly in place which are followed consistently and applied rigorously to everyone who is handed the baton of leadership. Failure to do this, and without appropriate consequences for transgression, is certainly not the way to improve our current situation in South Africa, which is plagued by countless examples of poor governance which has become the norm. Moreover, practical knowledge to improve governance practices must be made available, and shared at all levels within organisations so that perpetrators of poor governance can be held responsible. Regrettably, even though the knowledge and tools to improve and broaden governance may be available, only a few people who are concerned about such issues within their structures *actually* take action.

*"Sustainable development is the pathway to the future we want for all. It offers a framework to generate economic growth, achieve social justice, exercise environmental stewardship and strengthen governance."*

**Ban Ki-moon (United Nations: Secretary-General)**

Fortunately, there are a number of organisations who have chosen to conscientiously address and improve their governance issues across wide ranging areas. They start their governance processes within the board, and then extend their efforts via their management levels to the operations and their extended supply chain, in order that the overall sustainability of the organisation is improved. These forward thinking organisations have understood that to improve their governance, it must be approached in a methodical manner, giving full consideration to the process that must be followed as a part of its culture and overall strategy. Clearly, organisations who approach governance on this basis are not in it for the short haul, neither do they see their governance efforts as a 'dressage' exercise. Instead, their leaders understand how to unlock the value of good governance through a properly applied *Corporate Governance Framework®*, such where the process is not seen as an inhibitor to business, but rather as a value-added necessity which improves their bottom line performances and increases shareholder value. As more organisations begin to understand and apply good

governance on this basis, and their mindset moves toward *tangible value*, there are significant increases in shareholder value and higher profits as compared to those who disregard its importance. The critical point here is 'discovering' the *value of good governance* and then 'unlocking' it.

At the end of the day, we need to see value in that which we embark. If there's no value (or purpose), why do it in the first place? This having been said, it is entirely true that business is designed for making a profit. But as modern business has evolved, we need to understand our value as an organisation as well as the ethical values espoused by *also* protecting people and the planet. By simply passing over the people and planet components in a matter-of-fact tick-box manner, and remaining fixated only on profit, an organisation is not fulfilling its true purpose and it will inevitably be doomed to failure. *Value* has got to be shown in every facet of a business -- value for profit, value for people and value for our planet.

CGF Research Institute ('CGF') has for many years advocated the need to improve the corporate governance knowledge and practices amongst *all* the employees of an organisation. Directors, senior management and their employees should extend their thinking to include all the necessary components which create value and purpose for the organisation and its stakeholders. By not doing this, the organisation will erode its reason for existence and furthermore lose the trust and confidence of those who support it. To thrive; an organisation must -- in its entirety -- underpin all its activities using solid governance practices and such where its reputation for good, honest business, including its products and services, are difficult to replicate.

To assist an organisation to differentiate its strategy, CGF can assist organisations and their leadership with the implementation of a *Corporate Governance Framework®*. Such a framework will rapidly align many critical business imperatives, thereby assisting the organisation's leaders to focus on those matters which count the most by building upon (and maintaining) the organisation's overall sustainability.

Moreover, CGF's *Corporate Governance Body of Knowledge®* -- a web-based repository of governance information -- will further assist organisations unlock the value attached to good governance. This repository is used by many companies in South Africa and contains wide ranging corporate governance reports such as; how organisation's should deal with matters linked to Corporate Governance Reporting, Crime, Environmental, Ethical, Human Capital and IT Governance issues. The *Corporate Governance Body of Knowledge®* also contains policy templates, newsletters, articles, regulatory updates, governance related white papers, acronyms and a reference library.

In reality many directors have not been able to keep abreast of the governance, as well as the legislative and regulatory changes; and so this situation may have contributed toward the desperation of ticking boxes in order to get the bare minimum done. Of course there are consequences of not applying one's mind to the associated risks, and this will come back to haunt the board and its directors as time passes.

**ENDS**

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CGF is a Proudly South African, Level 4 B-BBEE compliant company that specialises in conducting desktop research on Governance, Risk and Compliance (GRC) topics, amongst other related company secretariat, regulatory and compliance consulting services.

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 Lead Independent Consultants, our consulting capabilities include the aggregation of local and international best of breed governance reporting services and extend to;

– strategic management consulting, business re-structuring, executive placements, executive coaching, board assessments and evaluation, out-sourced company secretarial functions, facilitation of Corporate Governance Awareness workshops, IT governance through to Enterprise Risk Management (ERM) consulting and Corporate Reputation services. All CGF's services cater for large corporates, small and medium sized businesses and state owned organisations.

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