ARTICLE

SUSTAINABILITY DEPENDS ON A STRONG GOVERNANCE FRAMEWORK

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Article by Terrance M. Booysen

Corporate governance is one of the key elements many investors consider when they reflect upon the organisation's success, as well as when deciding upon their investment choices. But when the organisation's governance system shows signs of stress or failure, not only do astute investors understand the unsettling impact it has upon the organsation's supply chain, they also become wary about its sustainability which may give rise to them re-considering to 'weather the storm' or 'bail out' so to speak.

Over the years so much has been written about failures of corporate governance within organisations, including the financial, social and political consequences which are typically found in its trail. Yet in spite of numerous regulation to improve the overall conduct of organisations, including the various King Codes of Corporate Governance written in South Africa, even more organisations are becoming affected by poor governance.

Indeed, there are a number of reasons why an organisation may become prone to poor governance and these matters are often fiercely debated in the hope that such occurrences would be avoided, or at best stopped. But in reality -- after the scandalous dust linked with poor governance has settled -- people seem to forget these (re-occurring) episodes and somehow the perpetrators seem to escape unscathed and they are not publically brought to book in any meaningful way. The failure of governance of any kind is ultimately the accountability of the board and its directors. Truthfully there are no bad organisations, only bad boards and it can be just one, or a few directors who may lead the organisation astray. Through their poor leadership and questionable governance practices immeasurable harm is brought to the organisation, including its exposed stakeholders. As disgraceful as it may be, even when these brazen individuals are removed from their existing directorship positions after they have been found deficient on their fiduciary duties, they somehow re-appear in different organisations to continue their escapades of greed and destruction.

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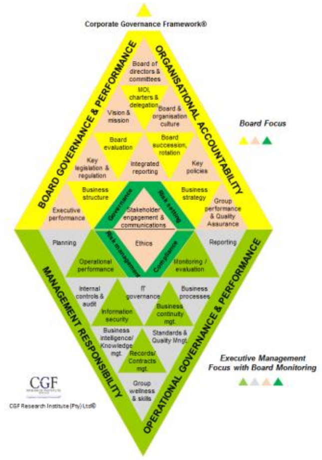
Why then does poor governance continue to prevail, and what *additional* measures could assist to improve an increasingly dire situation which costs the South African economy billions of rands in a variety of legal battles, including mediation and arbitration hearings, not least private and out-of-court settlements? For the purpose of addressing this question of repeatedly seeing organisations suffer as a result of poor governance; this article purposely does not focus upon the more typical reasons associated with poor governance practices such as poor leadership, or powerful and greedy directors with selfish motive. Instead, this article makes a *hypothetical case* -- albeit just for a few minutes -- that all leaders are ethical and that they are completely mindful of, and serving their fiduciary duties. If this were true, why then do so many fail when a 'post-mortem' is conducted upon the events that damage, or even destroy an organisation or a director's career?

Rather surprisingly, there is a more fundamental reason why corporate governance is likely to fail in an organisation. It occurs when an organisation fails to implement a Corporate Governance Framework® which is designed to connect the many intricate components required for ensuring the organisation's *raison d' etre* and its ultimate success. Through its application, a well thought through framework will also allow an organisation to address the qualitative governance issues, and avoid getting bogged down in the quantitative areas that usually have an adverse result upon the organisation's bottom-line. By not having such a framework in place -- especially in bigger or more complex organisations -- is a sure recipe for inevitable governance failure, albeit of varying degrees.

As with most successful organisations, it is extremely rare that the organisation will not have a vision and mission as part of its core guiding principles which underpin the reason for the organisation's existence. Indeed, these organisations are guided by a clear set of key documents which includes its strategy, policies and procedures in order to achieve the organisational goals.

Whilst these documents are, amongst other, essential for creating common purpose; in reality it is the organisation's Corporate Governance Framework® which unifies all the complexities of the organisation's strategic and operational processes which gives the organisation its 'athletic form' and 'mental agility'. If directors and the executive management structures are not sufficiently connected to all the vital business components needed in a sustainable organisation, then the governance of the organisation will undoubtedly suffer. For example, directors and management must have the necessary and sufficient understanding of their respective roles and functions, and there must be clear and distinct lines of accountability or responsibility as would be outlined respectively by the appointment of directors and managers.



At these senior levels, a senior manager must have the ability to present themselves effectively in the boardroom, and they should have a clear understanding of their individual role within the organisation's overall strategy. Similarly any director on the board must at least have a working understanding of the organisation's operations and its broader key risks, albeit not in minute detail.

For both the directors and management to be able to achieve this objective, they will need to rely on, and understand, the organisation's Corporate Governance Framework® which is customised to cover the key areas of director's accountabilities and the responsibilities attached to management.

Developing a Corporate Governance Framework® requires a thorough understanding of the organisation's purpose, objectives, strategy and operations, as well as the environment in which it functions. Expectedly no two organisations are exactly the same. Therefore the framework will differ from one organisation to the next, and more so particularly when the complexity of the organisation includes multiple geographic and legislative boundaries, or even if the organisation has multiple subsidiary sub-structures which are self-governing in operations.

Unfortunately there is no direct relief to be found in business textbooks or academic journals when developing a Corporate Governance Framework®, neither for that matter is there any clear guidelines offered in the King Report on Governance for South Africa - 2009 (King III). Building an organisation's governance framework will depend upon the collective understanding of the organisation's products and / or services and the market in which it operates. Expectedly, the skills of the board and the organisation's key management will also be critical to the development and success of the framework.

Organisations -- regardless of their size -- that do not have a governance framework in place which is used across all its senior ranks, will most certainly be burdened by dysfunctional, silo operational processes. Given situations such as these, and particularly when there is not a common understanding and a healthy flow of governance information between the members of the board as well as its key management, organisations will become more burdened with increasing risks which cannot be proactively managed. In this chaotic downward spiral, the organisation will become a breeding ground for many types of poor governance which may be guised in many forms. As the infestation begins to manifest itself, it will eventually lead to the erosion of the organisation and its sustainability.

Of course, any form of poor governance practices is not the type of situation any self-respecting director or board wants to be associated with, and for good reason. Yet if one considers the intention of the organisation's annual Integrated Report -- which is specifically intended for public disclosure and consumption -- it would be prudent for boards to implement their organisation's Corporate Governance Framework® to show *how* the board is actually delivering upon its collective mandate; namely increasing shareholder value and improving the efficiency and effectiveness of risk management for increased returns. But if the framework is not clearly set within the organisation's Memorandum of Incorporation (MOI) and the blue-print of its strategy, there will be little value and the organisation will continue to operate with disjointed objectives which will drag the organisation more in the failing governance quagmire.

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