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Corporate Governance Framework®

ARTICLE

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SCANT REGARD FOR CORPORATE GOVERNANCE IN SOUTH AFRICA

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With the recent findings of the Constitutional Court pertaining to the Nkandla matter, the subject of corporate governance has intensified and the topic has featured in media headlines, talk-shows and public debates across South Africa. Notwithstanding these recent events, have boards and their directors taken the issues attached to corporate governance seriously enough; particularly since the debacles attached to SAA, PRASA, Eskom, SABC and so many others which have been mired with alleged poor governance practices. And whilst there are endless regulations being passed -- with yet another new set of governance recommendations being published through King IV -- many organisations and their leadership continue their *laissez-faire* attitude with scant regard for good governance and accountability.

The practice of corporate governance appears to have lost traction in many South African organisations, notwithstanding the recommendations found in the Corporate Governance Codes such as those in King III and the imminent King IV. Almost every day South Africa is bombarded with examples where poor governance is exposed in government departments, private and listed companies, universities, schools, national sporting events and even churches - in fact, in all areas of our beleaguered society. Even the current Nkandla and Gupta exposé are testament of poor governance, where President Zuma has been deeply compromised; all the ingredients of good governance are lacking. Seemingly, South Africa's moral compass has lost its direction and our leadership across many sectors has degenerated to such an extent that it is becoming increasingly difficult to see the light at the end of the tunnel. As we have come to expect, many leaders claim their allegiance to moral behaviour and good governance practices; but few of them pass muster.

What remains a great disappointment is the fact that many of our leaders lack the political will or ability to make the changes required to reverse South Africa's current downward trend, both politically and economically. The evidence of poor leadership and their shocking governance practices can be found in, for example, the downward trend of South Africa's credit ratings, or the continual negative reports from the Auditor General in respect of the repeated qualified audits being provided to a number of government departments. But government and its organisations are not the only culprits. Many corporates fail to provide a true reflection of their own malpractices, mismanagement and greed. This is a result of setting inadequate or inappropriate operational plans with deliverable targets, as well as lowering the bar for business standards, awarding excessive remuneration packages to undeserving directors, disregarding environmental matters, anti-competitive behaviour, unfair labour practices as well as inaccurate annual reporting to cite a few examples within the corporate sector.

Another cause for great concern -- which is common to both the government and corporate business sectors -- is the number of directors who have been appointed to boards where their qualification and experience are inadequate or completely lacking. Given these circumstances, it is therefore not surprising to see how many directors treat corporate governance merely as a 'tick-box' exercise. They do not realise the critical importance of embedding proper governance within their structures, as well as their individual behavior. Needless to say, their selfish tendencies trump their fiduciary duty to serve the interests of the organisation, and the true value of good governance by-passes the organisation. To illustrate this point, boards that are typically dominated by self-serving individuals will not undergo a proper external board evaluation to determine the actual value they offer the organisation. Their annual evaluation process amounts to nothing more than a simple "yes/no" response to a basic set of questions which lists the same issues each year. Simply put, not only is this type of evaluation a complete waste of time to appease a select few, it may as well have been completed by the director's personal assistant. Given this example, directors are not being put through their paces, nor are they being challenged to show their true value to the board and the organisations they serve. Moreover, *these* directors do not formally gather to review the exercise, nor show the willingness to learn from the findings and change for the better. Notably, this lack of seriousness and diligence to 'stretch' the director for the benefit of the organisation exacerbates the leadership crisis in South Africa; it's also tantamount to breaching their fiduciary duties owed to the organisations they are meant to serve.

Holding people accountable -- especially leaders in government -- appears lacking in many respects; often the culprits of poor governance are "let off the hook" or at best, rapped gently on the knuckles. There must be ground rules firmly in place which are followed consistently, and applied rigorously to everyone who is handed the leadership baton. 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 and which now seems to have become the norm.

Practical knowledge to improve corporate governance must be made available and shared at all levels within organisations. Regrettably, even though the knowledge and tools to improve and broaden governance may be available, only a few -- relatively speaking -- who are concerned about such issues within their structures *actually* take proactive action. These organisations consciously choose to address their governance issues across wide ranging areas. Generally, they start their governance processes within the board, and then extend their efforts via their management team 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 and balanced manner, giving full consideration that the process must be viewed as a part of its ethos and overall strategy. Clearly, organisations that approach governance on this basis are not in it for the short haul, neither do they see their efforts as a governance 'dressage'. Instead, these organisations and their leaders understand how to unlock the value of good governance, 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 stakeholder value.

As more organisations begin to understand and apply good governance, and their mindset moves toward *tangible value*, research shows there are significant sustainable increases in shareholder value and higher profits as compared to those who disregard its importance. The critical point here of course is 'discovering' the *value of good governance* and then 'unlocking' it. Rather ironically, whilst some people have the means to improve their governance practices, they fail to take the appropriate remedial action, thereby paying lip service to good governance. Sadly, many organisations and their 'leadership' have simply put in place the minimum measures to meet the most basic governance requirements – and this is because they may be under duress from their sectoral regulations. Some of these minimum measures include, but are not limited to; separating the duties of chairmanship and the role of a CEO, putting in place new policies and charters, establishing additional sub-board committees and introducing integrated reporting. In many instances, notwithstanding these attempts to 'dress' the organisation in a better governance light, there has been little, if any significant noticeable or measureable improvement to the overall functioning or value of the organisation. This can be attributed mostly to the organisations' leadership who failed to correctly apply the broad principles of PPP (people, planet and profit) in a balanced, sustainable way. Their selfish purpose has remained singularly focused on self-enrichment with little regard for their impact upon the people and planet resources.

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? It is entirely true that business is designed for making a profit. However, as modern business has evolved, we need to accept that an organisation's *new value* will be determined not only by its profitability, but it will include the organisation's ethical values espoused by protecting people and the planet. By simply passing over the people and planet components in a tick-box type manner, and remaining fixated only on profit, an organisation is inevitably doomed to failure. *Value* has got to be shown in every facet of a modern business, namely value for profit, value for people and value for our planet.

CGF Research Institute has for many years advocated the need to improve the corporate governance knowledge amongst all the employees of an organisation. Directors, senior management and their employees must extend their thinking beyond the basics of governance and foresee the additional value governance brings to the organisation. Once an organisation has implemented its *Corporate Governance Framework®*, organisations and their leaders should ask what are their next steps to differentiate themselves from their competitors.

In reality, many directors are not on top of these issues and have simply -- at best -- stuck to the bare minimum of governance requirements. Of course there are consequences of not applying one's mind to the associated risks attached to these areas and it's only a question of time when these matters will negatively impact the organisation through the poor, short-sighted actions not taken by the board and its leadership.

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About the Corporate Governance Framework®

The Corporate Governance Framework® is a registered product of CGF Research Institute (Pty) Ltd. Developed since 2004 with input from many knowledgeable and experienced business leaders and researchers of corporate governance best practice, the Corporate Governance Framework® provides all the key governance components applicable to an organisation.

The end user of the Corporate Governance Framework® is able to rapidly discern the core governance and risk areas of the board's accountability against the responsibilities of management. Similar to any software or platforms being used by the organisation, including the organisation's documents which may be used in place of risk software applications, legal and risk registers can easily be linked to the Corporate Governance Framework® and any of the framework's sub-components. The Corporate Governance Framework® is flexible in its application, and the board and its operational leadership are provided a true state of the organisation's overall state of compliance against the strategic and operational components of the business.