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PAYING LIPSERVICE TO CORPORATE GOVERNANCE

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It is a fact that since the collapse of so many iconic organisations across the world, the subject of corporate governance has intensified and gripped the minds of many boards of directors. But have boards and their directors taken the issues attached to corporate governance seriously enough, particularly since the demise of Enron, Worldcom, LeisureNet, Regal Bank and so many others who have all collapsed through poor leadership and poor governance and which has resulted in a general worldwide tightening up of regulatory matters?

In South Africa, the topic of corporate governance appears to have lost traction, notwithstanding the sterling efforts and recommendations found in the Corporate Governance Codes documented in King I, II and III. Almost every day South Africa is bombarded with examples where poor governance practices are exposed or highlighted in government departments, private and listed companies, universities, schools, sport churches - in fact in all areas of society. South Africa's moral compass seems to have lost 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. Of course most leaders will claim their allegiance to moral behaviour and good governance practices; but few are willing to have these claims publically tested.

What is disappointing is that many societal and business leaders appear to lack the political will or ability to make the changes required to change South Africa's current downward trends, evidenced in for example, the continual and negative reports from the Auditor General's office through the qualified audits of so many government departments. Indeed, government is not the only culprit; many corporates fail to provide a true reflection of their own daily malpractices, mismanagement and greed. This may be evidenced by setting inadequate or inappropriate operational plans and deliverable targets, lowering the bar and standards, awarding excessive remuneration packages to undeserving directors, the continual environmental polluting practices, anti-competitive behaviour, unfair labour practices and even inaccurate annual reporting to cite just a few examples within the corporate sector.

Another area for concern is where the level of directors' experience is inadequate or completely lacking, most particularly when they serve on boards in executive positions. Many directors still treat corporate governance merely as a 'tick-box' and/or a 'yes' or 'no' exercise, and they don't subscribe to the true value good governance can bring to the organisation. This is clearly evident when, for example, a board undergoes its annual evaluation process and the process is conducted from a one - or two page question sheet that lists the same basic 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 individual director's personal assistant who has a superficial understanding of corporate governance. Given this example, directors are not being put through their paces, nor being challenged to show their true value to the board and the organisations they serve. In addition, neither do they honestly or objectively gather to formally review the exercise, nor show the willingness to learn from the findings, and change for the better. Essentially, this lack of seriousness and lack of diligence to 'stretch' the director for the benefit of the organisation exacerbates the leadership crisis in South Africa, not least also suggesting that *these* directors are in breach of their fiduciary duties which is owed to the organisations they are supposed to serve. 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.

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Holding people accountable, especially leaders of organisations, government and other businesses 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 and which now seems to have become the norm.

Moreover, practical knowledge to improve corporate governance practices must be made available and shared at all levels within organisations, so that it can be improved. Regrettably, even though the knowledge and tools to improve and broaden governance may be available, only a few people -- relatively speaking -- who are concerned about such issues within their structures *actually* take proactive action. There are a number of organisations who have chosen to conscientiously address 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 that the process must be viewed as a part of its ethos/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 efforts as a governance 'dressage' exercise. 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 shareholder value.

As more organisations begin to understand and apply good governance, and their mindset moves toward *tangible value*, research shows there are significant 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 are may be under duress or pressure from their external auditors or their mandatory sectoral regulations. Some of these minimum measures include -- but is not limited to -- separating the duties of chairmanship and the role of a CEO, putting in place some new policies and charters, establishing additional board sub-committees (thereby affecting to pass on the board responsibilities), introducing integrated reporting and following some suggested principles of King III. 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 fact that the organisations' leadership have 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 in one form or another (i.e. reputation or monetary) with scant 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. 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 inevitably 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.

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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? CGF's *Corporate Governance Body of Knowledge*® -- a web-based repository of information -- will 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 organisations 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 inter alia, policy templates, newsletters, articles, regulatory updates, governance related white papers, acronyms and a reference library.

In reality, many directors are not on top of these issues and have simply -- at best -- stuck to the bare minimum of governance issues. 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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