21 July 2015
CGF Breakfast Seminar
By Terrance M. Booysen (CEO: CGF Research Institute (Pty) Ltd)

My topic, **Unpacking the critical importance of a Corporate Governance Framework®** (and the mutually fulfilling roles of ISO standards) may come as a revelation for many of you this morning. But before I delve into the matter of a Corporate Governance Framework®, I wish to state that many organisation's GRC practices have remained not only static through the years, but also largely fragmented.

Whilst many will admit that GRC must be seen (and treated) as a process – in other words one that evolves and adapts to the changing environment and business circumstances – it's then not surprising that whilst GRC is not embedded within the organisation's strategy, that many organisations are still battling to stay abreast with the complexities of doing business in an ever-increasing regulatory landscape. Clearly this situation has dire implications not only to the organisation's bottom line and its sustainability, but more so to its survival.

The MC of the Breakfast Seminar: Michael Judin, an Honorary Patron of CGF and Senior Partner of Judin Combrick Inc.

Accordingly, it has become increasingly important for organisations to be adaptable, but also for them to be smart about the manner in which they govern their business. Therefore it's imperative that they make use of an intelligently structured Corporate Governance Framework® and through its use, that the board is able to make better business decisions which have been correctly assessed (and mitigated) against their risks.

One of the quickest ways to debilitate a board -- and often this breeds mistrust amongst the executive and non-executive directors -- is when information is not forth-coming and / or complete. And whilst the independence of non-executive directors must be upheld, it is equally important that they not only receive reliable and sufficient information for their decision making, but also that they have a proper understanding of the business which they co-direct together with the executive directors.

Accordingly, for the board to *believe* and *know* that it is a fully functional unit, all its directors must have sufficient high-level understanding of both the *strategic* and *operational* areas of the organisation, and these areas must be directed in concert. Without a Corporate Governance Framework® in place, this becomes almost impossible. On this note, it is therefore prudent to mention a few important facts about a Corporate Governance Framework® that you may not have been aware of. Whilst there are many more points I could address, I wish to cover five (5) important points regarding a Corporate Governance Framework®. They are:

1. The phrase Corporate Governance Framework® is a registered trademark of CGF Research Institute (Pty) Ltd. This phrase is registered in a number of trademark classes back dating to circa 2009. As with all registered trademarks, a license to use another entity's trademarks needs to be granted by the owners of such trademarks.

2. There is a distinct difference between a Corporate Governance Framework® and a governance framework. This difference is not defined by whether such a framework is built and used within a corporate environment or not. That being said, it is completely appropriate that a Corporate Governance Framework® reside within a government or non-profit organisation, just as much as it would reside in a corporate environment.

3. A Corporate Governance Framework® is a graphical or schematical representation of the manner in which a board of directors determine their accountability as measured against their enterprise risk factors, whilst at the same time understanding management's operational responsibilities to mitigate the risks. Equally, it may be used as a continuous digital dashboard for both the board of directors and their prescribed officers.

A Corporate Governance Framework® is not a thick file containing the organisation's charters, key legislation, delegations of authorities, key policies, MOI or similar documents. Matters such as, but not limited to, data governance, regulatory governance, IT governance are all sub-components of the Corporate Governance Framework®.

4. No two Corporate Governance Frameworks are the same. Think of a Corporate Governance Framework® as the 'DNA' of the organisation's 'blue-print' that regulates -- amongst other -- its roles of accountability and responsibilities toward risk management. Similar to the analogy of a human being, as a person matures, so too will the organisation's Corporate Governance Framework® mature. It is a process the organisation undergoes and this process will constantly evolve as it is impacted by numerous internal and external forces. Whilst the principles may be quite similar in different Corporate Governance Frameworks, their structure and composition will be quite different. Expectedly, the intention is to build simple, yet meaningful frameworks even in the most complex of (business) organisational environments.

5. Interestingly, none of the King Codes for Corporate Governance define a Corporate Governance Framework®, neither is this wording reflected in any of its existing documents. It is quite likely that this wording will also not be contained in King IV which is due in 2016.

Given this important background, it is also just as important to quickly address the matter of who is ultimately *accountable* to the affairs of an organisation, and who is responsible? Simply put; accountability is the entire domain of the board (collectively and individually) and *responsibility* resides with the organisation's day-to-day management. Indeed, where the CEO holds a position on the board, he has both accountability and responsibility. With the backdrop of these afore-mentioned factors in mind, probably one of the most important factors most boards grapple with is the matter of either too much or too little information being made available for timeous decision making. Expectedly, this situation occurs frequently and (poor) decisions being made at the board level are exacerbated by additional factors such as:

Keynote speaker: Terrance Booysen,
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- the organisation not having a singular repository of up-to-date information pertaining GRC factors in the organisation's direct and extended supply chain;
- the organisation being plagued by inept board members, or certain board members being overly relied on for decision making;
- the board not being correctly balanced with the correct mix of skills, experience, qualification and personas;
- obscure lines of authority as a result of a combination of factors such as poor leadership, vague charters and TORs, poor strategy, inadequate enterprise architecture and inadequate risk management;
- with the heightened stakeholder activism -- including more informed shareholders -- there's an increased demand for greater transparency of all the organisation's affairs (e.g. decision making, executive pay) and this includes reporting on stakeholder impacts through the organisation's annual integrated reporting.

Indeed, these factors are further complicated for organisations and their boards when one considers the barrage of 'compliance' that is expected of organisations to comply with, locally and internationally. Such compliance extends to the board having to ensure that the organisation complies with:

- its own industry legislation;
- the provisions of its MOI (altered or unaltered) and delegations of authority;
- the provisions of all its documented policies;
- the provisions of all stakeholder contractual obligations;
- the provisions of either local and / or ISO standards.

Failing to address any of the above factors, may well place the organisation at high risk and through any form of dysfunctional behavior or inaction, the organisation will suffer various forms of damage. For this reason, the board must pay *serious* and *constant* attention to the affairs of the organisation – this being the underlying reason for the director's board appointment as one of its fiduciary officers. Understandably, given the increased complexities of 'doing business', and knowing the manner in which the global and regulatory landscape has dramatically changed in recent years, a board does not have the luxury of time, neither for guessing . . .

Thick piles of documents which are often not sufficient -- neither always inter-related -- provide no comfort to the board, neither the organisation's prescribed officers, for properly understanding the business complexities.

Most often the knowledge and available information being provided to the board is out of kilter with the real situation on the ground. Not only does this represent high risk to the organisation as a whole, it also prevents or restricts the decision makers from making appropriate decisions. To the point then of 'good governance'; if an organisation claims it has good governance practices in place, it must then also surely to able to demonstrate that every decision maker -- who can effect material change within the organisation --

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(i) exercises their power in the correct manner, and
(ii) that they make good decisions over time, and across a spectrum of economic, social, environmental and other areas.

How can this be possible without a proper, dynamic governance structure in place?

Now that we have dealt with a few of the basics, which in itself can have a potentially damaging affect upon the functioning of an organisation if these are not correctly understood, let's briefly consider what it takes for an organisation to be "well governed" and through this, be able to claim it is a "good citizen".

In our experience, there are a few basics that first need to be in place. Firstly, the organisation must be wholly functional, and this starts with the board of directors who are accountable for setting, and ensuring the strategic direction of the organisation. Whilst the strategic task of directing an organisation in itself has many -- and most often -- challenging components to contend with, it requires astute, experienced individuals to direct the organisation towards profitability and its sustainability.

An organisation that is "well governed" will reflect a number of components; where strategic and operational elements are inter-locked such that there is *common purpose* and *common understanding* between all the organisational stakeholders. For this to happen, a Corporate Governance Framework® will greatly assist the board and management to ensure their respective functions are properly aligned and that there is a distinct -- and balanced -- relationship between the strategic and operational activities which are symbiotic for the purpose of sustainability.

Delegates got the opportunity to engage with a strong panel of GRC experts, who included Michael Judin (Senior partner: Judin Combrick Inc.), Terrance Booysen (CEO: CGF), Malcolm Caine (Independent Consultant: IQS International), Volker von Widdern (MD: Marsh Risk Consulting), Tracey Linnell (GM: Advisory Services ContinuitySA) & Vishnu Naicker (Group Risk & Compliance: Alexander Forbes)

Clearly, 'silo' or departmental -- rigid -- boundaries will not make this task any easier, and more so in an aggressive, and inter-connected global economy. Some of the key components for a successful organisation will include:

CORPORATE GOVERNANCE FRAMEWORK®

i. Organisational identity
Vision; mission; values (including ethics); branding

ii. Strong committed leadership
Understands accountability & serves interests of organisation; abides with legislation, codes & policies; geopolitically astute

iii. Board development plan
Needs assessment; evaluation; recruitment; orientation; maintenance/team building

iv. Organisational culture
Ethics, stakeholder communication & engagement, integrated reporting

v. Strategic plan
Goals; objectives; value creation; benchmarks; risk management setting

vi. Financial & systems admin
Budget; cash flow analysis; audit; financial reporting

vii. Operational plan
Objectives, activities & timelines; staffing; programme needs; committed resources; risk mitigation

viii. Management & employee development
Needs assessment; evaluation & review; training; team building; group wellness

Moving then toward the importance of standards, my colleague from IQS International – Malcom Caine – will provide you further business insights to this important topic, but before I hand the podium over to him, I would like to make the following comments regarding standards in general, as well as ISO 9001:2015 and ISO 5500x which Malcolm will address in more detail.

Whilst the board is fore mostly accountable for the organisation's strategic direction, they also need to ensure that the organisation remains compliant with numerous legislation, as well as keeping in line with its policies and procedures. As demands for sound governance in organisations has increased through recent years -- evidenced through increased legislation and various corporate governance codes across the world -- so too have there been changes set by the International Standards Organisation ('ISO') which most organisations need to comply with.

So, let's mull a few questions over regarding standards…

1. Why worry about a standard?
2. Where are standards generally derived from, and what's their purpose?
3. Who should be concerned about standards?
4. What happens if you don't comply with standards?
5. What liability does the organisation suffer when standards are not complied with?
6. How does an organisation cope with compliance to standards?
7. What assurances must be in place and how must this be reported?
8. What role does the board fulfil regarding standards?
9. Who monitors the standards within the organisation?
10. Is external verification and certification important and where must this be reported?

Without wanting to necessarily go into the answers of these questions, I am quite certain you will agree, given the litigious environment in which we operate, that a board of directors *who still believe* these to be operational matters (and therefore ignore the discussion in the boardroom) -- are in simple terms – out of touch. That being said, clearly *those* standards which are relevant to a particular industry sector and when they are applied within the respective organisations, they not only serve to protect and / or improve that which they are designed to do, they also differentiate the competitiveness between organisations at product and service levels. As is the case where a Corporate Governance Framework® assists the board to know and deal with a vast array of legislative requirements (amongst other matters), similarly the framework also assists the board in knowing to what extent it has dealt with their compliance to standards.

As I do not want to undermine the value and content of our next speaker who will cover ISO 9001:2015 and ISO 5500x from a more 'business orientated' perspective -- and leaving out the technical detail -- why is it still that many directors who serve on a board show scant regard for standards? Interestingly, whilst most directors believe that their functions remain purely of a strategic nature, ISO 9001:2015 may well shake this traditional thinking and cause directors to also consider certain operational matters which could have major risks upon their organisation, particularly when matters go awry.

ISO 9001 is an international standard which sets out the requirements of a Quality Management System ('QMS') for organisations. In brief, ISO 9001 facilitates the consistent production of good quality products and services which in turn brings many business and environmental benefits, whilst also minimising risks. It is important to note that ISO 9001 is the core standard that most well-known standards are based on and this is certainly a good reason for directors to keep abreast of this particular standard.

Expectedly, there are a number of director and board duties with regard to the QMS of an organisation. In the event that directors or the board do not fulfil these duties, the organisation may find itself exposed in various ways with the inevitable possibility of some form of internal and or external damages, not least tarnishing the organisation's brand or image.

Finally, the assets of an organisation is one of the key areas which the board must ensure is protected. After all, this is ultimately the reason for the organisation's existence and its profitability. The more commonly known and measured physical assets include the physical property owned by the organisation, its inventory as well as equipment as examples. But non-physical assets such as the organisation's people, its brand and reputation, digital assets, intellectual property rights and so forth have not until recently been held at the same level of importance as the organisation's tangible assets. Broadly defined, the term 'asset management' relates to the organisation's system that monitors and maintains things of value to the organisation (i.e. tangible and intangible assets). The main standard in the asset management suite is ISO 55001; it contains the requirements an organisation must comply with in order to be ISO certified.

As this standard 'talks to the heart' of the organisation's assets, it is imperative for directors to understand this suite of ISO standards and ensure the organisation correctly reflects the requirements of this standard. Whether the ISO 55000 series refers to the board or its top management; there's no doubt that all the organisation's directors will need to debate (and agree) the manner in which the organisation develops its asset management policy and asset management objectives and that these will be aligned with the organisation's objectives (i.e. MOI).

Quite correctly, the board and its directors must create the vision and values that guide all the organisation's policies, and it would be naïve to believe these are simply operational matters. Organisations and their boards need to clearly understand their roles and duties with regard to the extensive risks they may be faced with on a daily basis. Undoubtedly boards will call for simpler processes and a Corporate Governance Framework® that allows them to keep up-to-date of their challenges and allow them fast, and easier access to relevant information if they are serious about "risk-based" thinking.

I thank you.

For further information on this range of topics, please contact CGF Research Institute (Pty) Ltd on +27 (0) 11 476 8264 or email tbooysen@cgf.co.za