A view from the glass tower...

Corporate governance: whereto now my fair and equitable one?

The business community has recently been wracked by major scandals. This article explores the state of SA companies and their failure to consider corporate governance issues.

Given the state of business in South Africa, one might well be tempted to ask: 'what corporate governance?' The issue of corporate governance in South Africa started off with a desire to follow the Sullivan Code in the late '70s. The publication of two King reports, the first published in 1994 and the second in 2001, has taken the debate further. It would appear that the revised King Report – 'King 2' – attempts to focus on non-financial matters that take into account the needs of all stakeholders. King forces one to question the effectiveness of companies in view of the following proposals:

- The board of a company should be represented by a majority of non-executive directors with enough independent non-executive directors. The latter being a new breed of animal who does not represent major shareholders; is not a former employee, executive, professional advisor, significant customer nor supplier and does not have a significant contractual, business or other relationship with the company. Such a person should be nominated onto a board through a nominations committee. (Who should such a person be and who would or could nominate this person, without compromising the independence and, more pertinently, what would his/her role be? Could it be to check up on the chief executive oficer (CEO) when the position of CEO and chairman are combined as in certain large companies in South Africa? Admittedly this is not normally a combination associated with good corporate governance.)
- Executive director contracts should be for three years and reasons should be given if extended. Would this mean a constant game of 'ring a rosies' of directors and at what price would their severance payouts be? Or is it an attempt to reduce cronyism? As presumably the CEO would only have a limited number of cronies to appoint to these positions.
- Corporations are to ensure that directors are competent enough to perform their duties, by providing adequate training, induction and update. This is a very noble statement. But one questions whether the directors understand their roles and responsibilities at the best of times, as certain directors may be thought to have got their jobs through 'the old boy

network'.The thought that people who are heading up companies have no adequate training is a scary thought. It is also somewhat ironic given that directors tend to shy away from any union participation/involvement on the board due to a perceived lack of training on the part of unionists.

Also, when does one consider employment equity candidates for the board and what training is available to them to take up their positions in a meaningful way? By the same token if the directors are untrained, then their arguments about employment equity (EE) candidates not being ready for the position on the board are farcical.

King pays a large amount of attention to director remuneration with special mention of the following:

- A remuneration committee should be established, chaired by the chairman or the senior independent non-executive director.
- The remuneration should be fair, have a strong element of performance-related pay and be disclosed on an individual basis. Remuneration includes severance packages.This begs the question, how does one measure performance at this level, especially in a case like Regal where to paraphrase commission head John Myburgh, the CEO was a megalomaniac with a supine board? Is performance only questioned when the bank/company goes under? However, it will be interesting to see how many boards will implement this and how the bosses will feel being made to perform to standard as they have insisted on doing for employees lower down the ladder. Perhaps the financials and share price will start to reflect this 'new' standard for directors.

King suggests that cronyism will be prevented through transparency/disclosure and a majority of non-executive directors on the remuneration committee. One wonders whether this would be enough in instances where incompetent executive directors were appointed originally due to cronyism.

King's focus forms part of the triple bottom-line report that includes economic, environmental and social aspects. Obviously, legislative reporting would fall into this area. In addition, the companies should also give their response to HIV/AIDS, black economic empowerment, health, safety and the environmental, human capital development and organisational integrity.The latter is an interesting concept.What does it mean for an organisation to have organisational integrity and how would one know?

It is suggested that a way of measuring organisational integrity would be through a code.The code would include issues such as a senior individual to oversee compliance; communication and training and whistle blowing. In the present old-boy network system within which business tends to operate, the last suggestion is laughable. How does one act as whistleblower and still find work? Also, what would be the union's role in whistle blowing? The answer would in all likelihood depend on the relationship with management.And it would be most unfortunate for a union to have a good relationship with the management of a company which has no integrity.

King's focus on non-financial matters must surely be viewed in light of the upcoming World Summit.Will it cause companies to wake up and at least think about these issues? If the King Report is not clear enough, then the clarion call sounded by the demise of Regal and Enron should be enough for shareholders, directors, employees and even unions to act ethically and ensure good governance.

A view from the glass tower provides employees, on an anonymous basis, to talk about their experiences in corporate South Africa.