

Behind closed doors

Corporate governance must ensure externally audited accountability for what goes on behind boardroom doors, says Bob Garratt. AMANDA MATTHEE asks whether South Africa is on par with the rest of the world.

In terms of corporate governance, South Africa is one of the beacon countries in Africa – along with Botswana and Ghana, says Prof Bob Garratt, international expert on corporate governance and professor extraordinaire at the USB.

"I believe South Africa is one of the best countries when it comes to corporate governance. America says look outside US borders to Europe and Australia, but I say look to Europe, Australia and South Africa."

He says the current international debate on corporate governance is evolving around the shift from shareholder focus to stakeholder focus, from compliance to added shareholder value, from private sector focus to public sector focus, and from a one-size-fits-all approach to a one-value-set-fits-all approach.

"Most boards are compliance-fixated, which leads to 'box-ticking' and 'legalistic' mindsets. Fortunately, some codes of ethics are now moving beyond compliance. People are beginning to recognise that board performance leading to added shareholder value is an equally important aspect of corporate governance."

Creating a learning organisation

Garratt quotes Reg Revans, who developed action learning in the UK in the 1940s, as saying: For

any organisation to survive, its rate of learning has to be equal to, or greater than, the rate of change in its environment.

"Directors are charged to think critically and independently; and to ask discerning questions about proposals laid before them using their 'intelligent naivety' of the daily operations. All directors should regularly update their skills and knowledge," explains Garratt.

"Corporate governance must ensure accountability for the combined added value of financial results, environmental responsibility and social responsibility." □

"Most boards are compliance-fixated"

Corruption rating

South Africa was ranked 43rd out of the 179 countries surveyed in Transparency International's 2007 Corruption Perceptions Index.

King's 8 test questions on corporate governance

Mervyn King, former High Court judge and chairman of the King Committee on corporate governance in South Africa says board directors should ask themselves the following questions:

- 1 Is there any personal conflict for me regarding the issue before us? If so declare it, no matter how remote. Then, do I vote or abstain?
- 2 Do I have all the facts to make a decision? Remember the duties of care, skill and diligence.
- 3 Is this a rational business decision based on facts?
- 4 Is this decision in the best interests of the company?
- 5 Is the communication to the stakeholders transparent?
- 6 Is the company seen to be deciding in a socially acceptable way?
- 7 Would the board be embarrassed if this decision appeared on the front page of a newspaper?
- 8 Do I understand how this company makes money? What would kill it in the next few years?

The USB and corporate governance

The USB's Unit for Corporate Governance in Africa conducts multi-disciplinary research on corporate governance, and offers educational and development activities with the aim of improving the effectiveness of corporate governance in African organisations. The Unit is chaired by Prof Bob Garratt.