

**ARTICLE ISSUED BY THE CORPORATE GOVERNANCE RESEARCH INSTITUTE
(PTY) LTD (CGF)**

DATE: 26 August 2009

Preparing small business for the big league

Media headlines regularly depict the collapse of governance within large organisations, with articles citing poor management controls and corporate greed as reasons.

As regulations and legislation relating to governance within South Africa intensify, so too the controls within companies are beginning to tighten. With the ever-increasing focus on 'reforming' unacceptable business practices, it should come as no surprise that casualties are occurring more often, with directors of companies being increasingly held personally accountable for business malpractices or oversights. Recent acts such as the Competitions Act (and its amended Bill which is expected to be signed by President Zuma soon) will see directors being fined up to R 500 000 in their personal capacity, and or face jail sentences up to 10 years where they have contravened certain provisions of the Act.

Notwithstanding the alarming number of business failures, these figures and business impacts could still be considered small in comparison to what could result when companies face the impact of new legislation expected to be implemented next year. While larger companies are generally equipped to deal with the continued surge of new law and regulations, many smaller companies have not yet begun to consider the manner in which the new Companies Act 2008 and King III for example, will impact their businesses. Of course, it's not only changes in legislation which smaller companies must contend with - the supply chain within which so many smaller companies operate has it's own rules which must also be adhered to. For example, from March 2010, a company registered as (Pty) Ltd may have to answer two fundamental, yet critical questions prior to being awarded that lucrative deal from the larger company -

- (i) is your company BEE compliant (has your BEE status been verified using the Association of BEE Verification Agencies [ABVA] process), and;
- (ii) is your company compliant with the principles contained within the King III Code for business conduct?

Whilst some companies may survive this initial screening, the reality is that many businesses may find themselves being expelled from the supply chain of larger companies should their responses to these basic questions be negative or without reasonable explanations.

When questioning directors about their views and understanding of good governance practices in business, many may still respond that it is *simply about adhering to laws and regulation*. Sadly, this limited view of governance reflects the status quo in most board rooms of smaller companies and whilst it may not be required of all businesses to

comply with all the changing laws and regulations, governance certainly does extend well beyond legal compliance.

It is imperative that directors begin to grasp the wider implications attached to the use of the words “sound governance”. These multitude of additional components are ultimately underpinned by the manner in which a company should address its business strategy, which should match its appetite for risk.

The prevailing attitude found amongst many directors of smaller or non listed companies tends to be one of minimal compliance or understanding of governance. In other instances, there may be little appetite for the discussion. Whilst directors in these circumstances may believe their actions, or lack thereof, are justifiable, the reality is that it will have dire consequences, especially since they may be contravening certain laws.

To assist smaller companies and their directors in unraveling many of the complexities attached to sound governance, CGF Research Institute has embarked on a programme to provide companies a head start through the provision of its Corporate Governance Body of Knowledge (BoK).

The BoK programme is a web-based application which provides companies access to a variety of governance related information and services. This enables companies to gain a rapid understanding of some of the pressing issues which could prevent some casualties. Within the programme, companies have access to numerous reports which cover issues such as BEE, IT Governance, Business Continuity Management, Class Actions, Reportable Irregularities, Alternate Dispute Resolution and other highly relevant reports which are produced each month. Policy templates are also available to assist companies to either prepare new policies, or to match their existing policies against the content reflected within CGF’s up-to-date templates. Other useful services include executive governance newsletters and summaries, a reference library of books and acronyms, quick updates to changes in legislation, discounts on business related conferences; toolkits; manuals and magazines.

The CGF Body of Knowledge programme, which is found on CGF’s website portal (www.corporate-governance.co.za), serves as a useful tool for all businesses to gain an understanding of many aspects relating to good governance. The extended services found on the CGF website portal is growing rapidly in popularity, where companies have access to numerous suppliers - as strategic associates of CGF - who specialise in other, complementary aspects of governance, risk and compliance (GRC).

To assist CGF’s drive to see more companies becoming equipped to deal with the increasing demand to adopt and implement sound governance practices, patron companies such as Continuity SA (Pty) Ltd and Spescom Ltd have provided CGF with financial backing and support. Whilst more patron companies are expected to join the existing ranks of CGF, its highly reputed Honorary Patrons - Dr. Mathews Phosa and Professor Shirley Zinn - are expected to provide further inputs to this critical business initiative. As more companies who offer Governance, Risk and Continuity (GRC) related services and business support functions join the CGF governance initiative, it is

anticipated that this will become a “one-stop” shop for companies in finding the GRC solutions they require for their businesses. These solutions may be either standard, off-the-shelf offerings, or customised solutions to meet specific business requirements of large corporates, small medium businesses and governmental organisations.

Clearly, the requirement of better-run companies will rest upon the shoulders of the directors. They will not only be held accountable for implementing sound governance measures and sustainable business practices, because of the provisions of the law, but also through the increasing pressure from their key stakeholders to do so.

Companies and their directors, who brazenly disregard the importance of sound governance and compliance with the law, are set to suffer the consequences of the law and certain business failure.

Words: 1026

For more information contact:

Terry Booysen, CEO, CGF Research Institute (Pty) Ltd on Tel: +27 (11) 476-8264/1; Cell: +27 82 373 2249; Fax: 086 623 1269; Email: tbooyesen@cgf.co.za, or visit www.cgf.co.za

CGF is a strategic partner of the Proudly SA Campaign.

