

Only leadership, ethics can help SA's economy now - corporate governance report

Only ethical leadership, ethics and compliance with the country's existing legislation and regulations can arrest South Africa from its economic malaise, create jobs and address poverty and inequality.



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So says the Acting CEO of the Institute of Internal Auditors SA (IIA SA), Charles Nel, who was speaking today at the launch of the seventh edition of the Corporate Governance Index (CGI) 2019 Report at the Sandton Convention Centre.

The CGI was released just a day after a damning report by the Auditor-General revealed that irregular expenditure in government had soared to R62.60-billion.

One of the key findings of the CGI report was that just 14% of those canvassed at national government level believed ethics was an important part of their organisational culture as opposed to 31% at provincial level, 23% at district level and 37% at local government level.

These compared to 42% at state-owned entities, 72% at privately held companies and 78% at publicly held companies.

Nel said the ethics dimension had dropped significantly in ratings over the last seven years, saying: “Where it enjoyed a rating of 3.4 (out of an index of 0 to 4) in 2013 and 2015, it dropped to 2.8 in 2018 and 2.9 in 2019. This reflects the current political and economic climate in the country. The decline of ethics is ultimately costing the country with regards to slow economic growth, negative outlook on trust, a lack of leadership capability which impacts negatively on the poor and vulnerable in society as well as human capital sustainability.”

Nel said the study showed that ethical behaviour and practices must take root at a leadership level.

“Leaders should reflect honesty, accountability, integrity, a sense of justice and good conduct which is then in turn reflected throughout the organisation among all stakeholders including employees, customers and suppliers.”

He said maintaining an “effective ethical ethos” requires “effective ethical controls as well as a robust ethical risk register”.

The CGI report is compiled by the IIA SA in conjunction with the University of Pretoria and offers an overview of South African organisations’ corporate governance ratings from the perspective of Chief Audit Executives (CAEs).

It is intended for organisations in both the public and private sectors to continue having conversations on the measurement of governance as well as assist to identify strengths and weaknesses while filling organisational gaps.

It measures key elements such as ethics, leadership, compliance, risk, performance and internal audit and is based on the King IV outcomes and principles of governance. The King Code of good governance, a world recognised governance guide, instils an integrated thinking approach from the top down with leadership and oversight in organisations.

The latest report does show a slight improvement of 3.5% in both the areas of corporate governance and ethics. Nel urged all corporate citizens and leaders in both the public and private sectors to use the CGI to improve their systems and processes – as well as their bottom line.

“The future of South Africa is at stake and we need strong ethical leaders to take charge and reshape thinking, operations and implementation.”

He said that, as with the compliance dimension of governance, the leadership index enjoyed a rating of 3 out of 4 for the past seven years.

“However there seems to be a sense of imbalance as media reports indicate otherwise as leaders are often under fire for a lack of governance and direction in both the private and public sectors. This scepticism and lack of competence is, more often than most, perceived to be a lack of qualified skills, vision and governance direction. Sadly, South Africans are increasingly losing faith and trust in their leaders with their legitimacy and credibility being questioned.”

Nel urged South Africa’s business and political leaders, therefore, to ensure sustainable economic growth by balancing the needs of their organisation and its impact on the broader environment. “Governance and oversight bodies also need to fully understand their roles and responsibilities and the impact on performance on the organisation.”

The CGI report also revealed that, in terms of compliance, only 54% across all sectors said there was adequate adherence to legislation and regulation.

The highest was in the SMME sector which recorded a figure of 83% while the lowest was at local municipality level which stood at 30%.

Said Nel: “Non-compliance, as we know, leads to investigations and litigations. Since the change in government leadership recently there have been four judicial inquiries put in place - the State Capture Inquiry, the Sars Commission, the PIC Commission and the NPA Commission into the fitness to hold office of certain people - to investigate the abuse and misuse of state resources, the failure of adherence to governance principles and corruption at state institutions.”

However, Nel said more was needed. “While these public hearings are often revealing and transparent, there is a failure to implement stringent punitive measures.”

IIA SA Chairman, James Gourrah, said the past year had been a challenging one for the internal audit profession with increased public scrutiny and criticism due to various scandals and events such as state capture, corruption and corporate malfeasance.

“These have put our profession under the spotlight and led us to deal with a shifting reality. Increased expectations were placed on us as a professional body to respond to such challenges whilst we were also coming to grips with the anticipated impact of the Fourth Industrial Revolution on the profession. Thus the CGI report must also help us in improving our organisation and industry and the way in which we work and execute our duties.”

He said the report must be used to restore trust and hold people and organisations accountable.

“Governance should imply more than compliance with relevant legislation but also best practice principles ... our membership is no different and should develop a deep-rooted culture of accountability, transparency, respect, efficiency, ethical thought and action.”

To view the full report, click here: <https://www.iiasa.org.za/page/CGRI>

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