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### LOOKING BACK & GOING FORWARD

by Terry Booyens (CGF Research Institute)

Good morning ladies and gentlemen (Abridged Version)

Indeed, it is a great pleasure hosting you at this special breakfast, and I and the CGF team extend our gratitude in your continued support through the 10 years of our existence.

May I also thank all our sponsors Aon SA, ContinuitySA, Grant Thornton and CQS, including all the people who rallied behind CGF to make this occasion special.

A special word of thanks to our host, Mr Mark Kelly who made it possible for CGF to make use of the Johannesburg Country Club, being such a fabulous venue.

Thank you also to all CGF's employees and consultants for your tireless efforts to making CGF what it is today. To our honorary and corporate patrons, clients, strategic alliance partners, and the ProudlySA Campaign, our most sincere gratitude is owed to you.

As I commence my presentation, perhaps a quick roadmap is needed to explain how Paul and my presentations have been prepared; essentially I will be providing a more macro-approach to the world of governance and risk, *'looking from the outside in'* and sketching a scenario which may beg some questions to your organisation's future, general strategic thinking and direction.

Interestingly, many a board member may think he's on top of matters only to discover that someone has changed the rules of the game. Most often, and more so in our rapidly evolving and highly technical business world, the rules are being changed daily. So, the question is; 'just how prepared are we really' as leaders to anticipate future change and are we practicing a more agile way of coping with the new thinking and its challenges?

Paul's presentation will give you a practitioner's broader understanding of *'looking from the inside out'*, and you will get a fair measure of more practical matters to consider as he unpacks some of the issues that cause dysfunction in boardrooms and mis-aligned governance structures which have the ability to seriously damage, or even cause an organisation to collapse.

So I trust that between our two presentations, you will get a good perspective of the two approaches, each integral to the other and critical that they are aligned with the strategy and success of a business. The fundamental underpin of the organisation's sustainability remains grounded in sound governance policies and practices.

Our own journey within CGF has had its own tribulations and successes as we look back on these incredible years of learning more about what good and poor governance entails. As we have learned so much about our own business, and shared many a lesson with our clients through the years, we realize how much there is still to learn as we look forward to the future challenges that will define our own existence as a company and its sustainability. Indeed, these lessons can be shared with our clients so that we need not "re-invent the wheel" as the saying goes.

It is on this note that one realizes in life that to excel in business, it's not necessarily about how hard one works to achieve the goal, but rather about how smart one is about achieving the goals at hand. And so, at the outset may I suggest -- in real business terms -- that some business leaders are 'smarter' than others, and through their mental agility and stealth strategies, they perform better than others.

That said, let's also agree that most of us are all in business to make money -- and hopefully lots of it -- so that we can claim the end prize. Whilst this statement may appear somewhat direct, it remains true for many, even though we don't want to admit it.

Now that we have been bold enough to concede this truth, from a governance perspective it's not important how much money was made, but more importantly how the money was made and how it is being spent that matters. In other words, we need to know that the money was made legally and according to ethical standards and such where appropriate portions of this money is used to build and strengthen business and social communities so that the entire supply chain – at global and local levels – remain sustainable.

These are some of the principles contained in King III and no doubt contained within many business journals and MBA programmes worldwide.

So, it's about money at the end of the day; it's about appropriate risk taking, it's about know how far to push or pull back, it's about judgement calls, ethics, morality and 'humanness' – these are the factors that we contend with in business each day. Some of us are more evolved (or business savvy) to deal with these parameters, others less so and averse to risk taking.

Notwithstanding the levels of our experience, we are all on a journey where realistically speaking there may be no real beginning and no real end and these 'truths of business' have become more vague in recent years with the advent of e-business, cloud computing and so forth.

Our many types of boundaries – be these at geographic levels, societal levels, cultural, business or legal levels have become so blurred, that it's becoming increasingly difficult as leaders to survive in business terms, let alone thrive!

Perhaps this is then the right juncture to ask whether or not South Africa has clearly understood the difficulty and challenges of these boundaries, and whether its strategy could withstand the test and scrutiny of its citizens, South Africa's stakeholders, regarding the soundness of its strategy and plan.

May I assure you this will not be a government bashing talk; whilst there are many critics out there who don't foresee the National Development Plan (NDP) achieving its objectives, you will no doubt have already formulated your own opinion regarding the road South Africa is currently travelling.



Graphic: Fritz Jooste ([fritzjooste.com](http://fritzjooste.com))

The Auditor General audited a sample of 8 out of 45 national departments and only 124 contracts worth R5.5 bn were audited. Findings were made against all 8 departments

All over the news in SA, and in other parts of the world, SA is being lambasted by its investors - local and foreign - such where matters such as crime, corruption, unemployment get the main focus and brunt. Even the Auditor General has had his say regarding dysfunction where his 2013 report shows many poor governance practices within national and local government departments and cause for major concern.

Interestingly, last week I had the occasion to address a high level audience straight after Clem Sunter - a foxy man - and whilst this was not the first occasion I have done so, I have to admit that it was really good allowing Clem to set my scene for a change.

Normally, I am the person delivering gloomy messages attached to poor governance, such as when I predicted in October 2011 at a national podium that SA would still see social unrest of epic proportions if the gap between the rich and poor, educated and uneducated, employed and unemployed did not become less.

Expectedly, my critics scoffed the idea notwithstanding the fact that after I had said what I did, Moodys down rated SA's global ratings, followed by Fitch and S&P.

SA is now generally rated at BBB+ by all three agencies (Sept 12) and considered a much higher risk for foreign investors.

In Clem's latest talk, he suggests that South Africa is in a fairly rapid decline, and what was previously a 10% blip on the geo-political play card, has now become a 25% probability of SA becoming a failed state. Putting this into perspective; 10% predictability scoring at the time probably meant "let's keep an eye on this potential problem", whilst 25% now means "what will we do to fix the problem?"

We need to however be mindful of the fact that according to recent statistics cited on Moneyweb, SA Inc. has lost almost 45% of its FDI in the 2011/12 period, and almost 450,000 SME businesses have closed in SA over the last 4-5 years! Of course this does not bode well, particularly knowing that the NDP of Pres. Zuma hopes to build 5m new jobs by 2020. Of course many critics have said we should rather be talking about creating new businesses (as opposed to simply trying to get existing businesses to create more jobs in an already pressurized cooking pot). By creating new businesses through the appropriate government grants and tax incentives -- particularly in the SME sectors where currently almost 67% of our existing employment comes from -- new and entrepreneurial growth will flourish instead of;

- trying to bolster existing State-Owned Organisations with even more employees and ineptness (SOEs currently offer circa 22 % employment)
- placing yet more pressure and burden upon existing businesses to create 'decent' new jobs.

That said, in just the past few weeks it has become very evident of the tensions between business and government, through for example;

- the political tensions and uncertainties of South Africa's future
- the drop in SA's sovereign credit ratings
- the weakening of the Rand
- the lowering of SA's GDP forecasts by the IMF for global growth in 2012 to 3.3%, from its July forecast of 3.5%, with its 2013 forecast falling to 3.6% from 3.9%
- the social and labour unrest
- increasing unemployment & debt burdens at both country and consumer levels

- lack of clear strategy & growth of the country
- drop of local & foreign investor's confidence in SA
- political interferences with business in SA
- greater state involvement in mining, falling short of outright nationalisation
- high demands by labour and radical unions
- regulatory uncertainty evidenced through the massive resurgence of BBBEE, EE and LRA (SA has a very poor record in terms of LRA. According to the World Economic Forum's Global Competitiveness Report, SA is the worst of 142 countries assessed in terms of co-operation in labour-employer relations)
- constraining legislation is proposed for the media, civil society, and the Judiciary
- unbalanced and increasing tax burdens upon business and high net worth individuals.

Perhaps, and in addition to the above, South Africa Inc. doesn't have a clear plan for the road ahead; and many critics and businesses in SA believe the NDP will amount to nothing more than what GEAR tried to achieve and have referred to South Africa's journey ahead as a *Long Dark Night*!

Remember SA Inc. has put together a few paper-good strategies/plans (ASGISA, IPAP 1 & 2, NGP and now the NDP) and yet details to achieve any of these illustrious plans have fallen short of their marks. Arguably, many also feel that NEDLAC and BUSA have also failed to achieve the partnership levels that are so desperately required between government and business in order to get SA back on the road to success.

Regrettably, Pres.Zuma's SONA failed to create inspiration amongst the much needed support of business and mistrust may now have deepened.

So how are SA CEO's feeling right now?

Well, before we attempt to answer this loaded question, let's say that we need to stand together and either agree to fall apart, or walk together!

This feels somewhat remnant of Dr Mamphela's three road scenario pitched just a few years ago and probably some of her motivation to enter the political scene with the launch of her new party called AGANG (which can be interpreted in English as "Build South Africa"). And might the introduction of AGANG SA become the *New Dawn ahead*; I guess time will tell?

In the latest PwC 16th Annual Global CEO Survey (Jan 2013), aptly entitled *Making Strides to Survive & Thrive*, CEOs across many industries of 56 publically listed and privately owned businesses in South Africa had this to say;

- Firstly, there's a cautious optimism in SA (CEOs: 2012)
  - 3%-16% of SA CEOs believe the global economy is showing positive developments across a range of macro economic areas, whilst between 15%-18% their international counterparts are more positive
  - 90% of SA CEOs are bullish about their prospects for revenue growth in next 12 months (short-term), but most CEOs are not confident that they will make their revenue growth in the next 3 years
  - 98% of SA CEOs have key operations in other parts of Africa, and 81% of SA CEOs expect to grow key operations in other parts of Africa in next 12 months

- Many SA CEOs rate China, Nigeria, India & Brazil ahead of the traditional economic power houses of Western Europe. 17% of CEOs expect their key operations in Western Europe to decline in the next 12 months
- The World in 2050 Report\* concludes that emerging economies are set to grow much faster in ave. growth of GDP than their counterparts over next 4 decades, with Nigeria in front, followed by Vietnam, India, Indonesia, China, Saudi Arabia & South Africa
- 75% of SA CEOs expect to see headcount to either increase or stay the same

BUT then there's the worries;

Macro risks in SA (CEOs: 2012)

- Availability of key skills (88%)
- Bribery & corruption (75%)
- Uncertain or volatile economic growth (75%)
- Exchange rate volatility (70%)
- Social unrest (68%)
- Over-regulation (66%)
- Lack of stability in capital markets (64%)
- Government response to fiscal deficit & debt burden (63%)
- Energy & raw material costs (59%)
- Protectionist tendencies of national govts.(59%)
- Increasing tax burden (48%)
- Inflation (47%)
- New market entrants (43%)
- Changes to consumer spending & behaviour (41%)
- Inability to finance growth (39%)
- Inadequacy of basic infrastructure (39%)
- Supply chain disruption (32%)

Moving forward, CEO's in SA and worldwide foresee their strategies including;

- Growing customer base (SA 64%:Global: 51%)
- Improving operational effectiveness (SA 48%:Global 49%)
- Enhancing customer service (SA 43%:Global 38%)
- New M&As / JVs / strategic alliances (SA 34%:Global 33%)
- Filling talent gaps (SA 34%:Global 27%)
- Implementing new technology (SA 27%:Global 26%)
- Manufacturing capacity (SA 20%:Global 19%)
- R&D and innovation (SA 18%:Global 32%)
- Securing raw materials or components (SA 7%:Global 9% )

Before I hand over to Paul, let me emphasize that this is not the end of the road and SA Inc. is still a new democracy with many issues to address. Somehow, no matter how worrying the future may be, visitors to our country have generally concluded that "it is a lovely place – but that SA cannot possibly last another 5 years. Time and time again, experience has proved the pessimists wrong."

To conclude my presentation, for SA Inc. to resurge and lift its game to the higher league as Clem puts it, we will need to see, amongst other:

- a move towards the deregulation of labour markets
- reduced excessive legislation linked to employment equity and empowerment requirements

- abandon the idea of large-scale state led industrial and social policy such as a state owned miner or steel maker and the National Health Insurance scheme
- maintain conservative fiscal and monetary policies such as inflation targeting
- provide lucrative incentives for SMEs to develop to absorb large sector of the unemployed.

Thank you.

\* The World in 2050 The BRICs and Beyond: Prospects, challenges and opportunities – a PwC Report

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Words: 2,522

Further Media Information:

Terry Booysen (CEO)  
CGF Research Institute (Pty) Ltd  
Office: (011) 476 82 64 / 1 / 0 Cell: 082-373 2249  
Email: [tbooyse@cgf.co.za](mailto:tbooyse@cgf.co.za)  
Twitter : @CGFResearch