

## THE CHAIRMAN'S REPORT

By Dr Reuel J Khoza, Chairman Aka Capital and former Chairman Nedbank Group Limited  
23 June 2015

### 1. Introduction and Overview

There are chairmen and chairmen. Political parties have chairmen as do cultural and sporting organisations. Religious organisations have chairmen as do those whose cardinal purpose is organised crime such as the mafia. The role of chairman in its various guises is pervasive in society and among nations.

Chairman is conventionally defined as one who occupies a chair as the presiding officer of a meeting or an assembly. Some would define Chairman as The head officer of an organisation, who is entitled to preside at its meetings and usually to exercise some authority in carrying on its affairs.

I will confine my address to Chairman of the corporate Board who is generally defined as The Principal Officer of a corporation who presides over its board of directors and oversees its activities:

- i. By developing its policies and reviewing its strategies
- ii. By bringing forward for discussion and action problems arising from conflict of interest issues, stressing financial stewardship, policy questions, flowing from executive decision and implementation and
- iii. By setting up sound board procedures and securing competent board members of integrity.

The Chairman's Report is typically part of the corporation's annual report and generally reports to stakeholders on such aspects as:

- a. Overall performance of the company
- b. The pertinent industry and its environment
- c. The state of the political-economy and attendant socio-economic challenges.
- d. The board of Directors: performance, rotation and succession.
- e. Outlook: macro-economic conditions projection, business confidence, anticipated consumer spending, global trends etc.
- f. Appreciation of contributions by various stakeholders.

### 2. What informs the Chairman's Report

The chairman's Report is informed, influenced and shaped by various factors which underpin his or her performance, sequent to which he reports. These include:

- 2.1 The Leadership Imperative
- 2.2 The Fundamental Value System/ Philosophical Stance
- 2.3 A Sense of Destiny: Self and Corporate
- 2.4 The Context

## 2.1 The Leadership Imperative

The Chairman is first among equals in a team of leaders dubbed the board of directors. It thus behoves him to lead the charge in providing corporate leadership. King III characterises this as Responsible Leadership and elucidates as follows:

- i. Good corporate leadership is essentially about effective, responsible leadership. Responsible leadership is characterised by the ethical values of responsibility, accountability and fairness and transparency.
- ii. Responsible leaders build sustainable business by having regard to the company's economic, social and environmental impact on the community in which it operates. They do this through effective strategy and operations.
- iii. Responsible leaders reflect on the role of business in society. They consider both the short term and long term impact of their personal and institutional decisions on the economy, society and the environment.
- iv. Responsible leaders do business ethically rather than merely being satisfied with legal or regulatory compliance, uncritically aligning with peer standards or limiting themselves to current social expectations. They value personal and institutional ethical fitness and practise corporate statesmanship.
- v. Responsible leaders do not compromise the natural environment and the livelihood of future generations.
- vi. Responsible leaders embrace a shared future with all the company's 'stakeholders'. They are sensitive to the impact of their companies on all its internal and external stakeholders. They give direct rather than incidental consideration to the legitimate interest and expectations of their stakeholders.

Corporate Governance is leadership in practise, which almost invariably is a fine balancing act. Corporate law and contemporary governance codes remind boards that in law they head the company. Activist shareholders are quick to criticise chairmen and boards who do not intervene decisively when the executive seems to be slow.

## 2.2 A Fundamental Value System

I accept it as received leadership wisdom that: the most successful organisations are those that are vision beckoned and values anchored. The banking group I have just retired from is beckoned by the vision of Building Africa's most admired bank by its staff, clients, stakeholders, regulators and communities. Its value system includes integrity, respect, accountability, pushing beyond boundaries and people centeredness.

The healthy tension between the beckoning vision and the anchoring value system propels the corporation forward at a healthy pace. The chairman's report is written having due regard to the gravity of this value system.

## 2.3 A Sense of Destiny: Self and Corporate

The chairman of the corporate board must have a personal sense of destiny which informs his personal mission in life. His life purpose must find significant resonance with the board and corporate purpose. Both chairman and corporation have to be vision led and purpose driven.

Some Chairmen tend to be thermometers that record the temperature of prevailing conditions in our political economy, instead of thermostats that should transform and regulate the temperature of our nation. This hour in South African history calls for active, conscientious non-conformists.

The Chairman of the Board would be well advised to heed Ralph Waldo Emerson's admonition that "There are always two parties, the party of the past and the party of the future, the establishment and the movement." Every corporation, driven largely by the board, is in the process of transforming – of becoming an anachronism irrelevant to the future, or becoming the harbinger of the future.

William Jennings Bryan sagaciously advises that: "Destiny is no matter of chance. It is a matter of choice: It is not a thing to be waited for, it is a thing to be achieved".

The Chairman as leader and corporate conscience ensures constant awareness of this dictum: and come report writing reflects on progress achieved.

### **2.4 The Context**

The corporation does not operate in a vacuum. It functions in a political economy which invariably has a bearing on its functionality. It has to take into consideration the expectations of various stakeholders. Stakeholder relations is one of the Chairman's focal leadership responsibilities.

As the world increasingly becomes a neighbourhood, the chairman and his board need to identify and monitor global trends heeding both geo- economics and geo-politics. The Chairman's report reflects and reports on these in so far as they impact on corporate performance.

The corporation performs a role as a concerned, conscientious and responsible corporate citizen in the political economy. The Chairman is, or should be, the corporate flag-bearer.

### **3. The Chairmanship Challenge**

The notion of the chairman as "a safe pair of hands" can no longer hold. A plethora of challenges has put paid to that.

Chairmen are now expected to know more about their companies and the markets in which they compete. It is required of contemporary chairmen to draw on their own experience and insights to help CEOs and executive teams develop and adapt strategy, and not wait passively for board presentations. Increasingly the chairman has ultimate authority and responsibility for the direction and performance of the corporation, even though the executive control and implementation lies with the Chief Executive Officer.

The Chairman cannot simply prepare the agenda, read the board pack and chair the board meetings. Ensuring board effectiveness, regularly monitoring enterprise performance and risk management, planning and executing board and executive succession, have become key chairman responsibilities. While chairmen should not dictate or prescribe corporate strategy, a good chairman will expect to have significant input to strategy formulation and risk management processes.

## Dr. Reuel J. Khoza

Proactive Chairmen purposefully stay abreast of the key competitive issues facing the company as well as prevailing legal and regulatory developments to ensure they are optimally connected to emerging strategic thinking.

Provided there is complete trust between the chairman and CEO and the division of responsibilities is very clear to both parties at any given time, an engaged chairman will enhance the effectiveness of the executive.

Today's chairmen need to be good facilitators and great communicators both inside and outside the boardroom. They need to be able to bring the best out of people no matter what the economic environment.

Essentially the Chairman has two cardinal roles: manage the board and render the executives successful. Good chairmen are required to establish a productive board atmosphere, but the stakes are rising. Socio – economic turbulence and growing scrutiny by such stakeholders as consumers, government and regulators, continually shine a spotlight on the effectiveness of the boards and some are found wanting. The Challenge for chairmen is to create a boardroom culture that is both inclusive and robustly questioning. With rising expectations non-executive directors will need to do their homework and be well versed on prevailing corporate issues and, via engagement with committees and one on one sessions with executives, delve even deeper into the workings of the corporation.

At a deeper, perhaps more onerous level the chairman is or is challenged to be the conscience of the company and the champion of its reputation- the custodian of its moral compass.

#### 4. Conclusion

The section referred to as CONTEXT in the proceeding discourse hints that the chairman is, or should be, the flag bearer of the corporation as a concerned, conscientious and responsible corporate citizen. Concerned and responsible corporate citizens cannot afford to ignore corrosive forces bent on destroying the political economy.

Rudyard Kipling opines wryly: "But I would shut my eyes in the sentry box, so I did not see nothing wrong."

Chairmen of corporate boards adopt this stance at the nation's peril. Robert J. McCracken is even more emphatic: "The world is not perishing for the want of clever or talented or well-meaning men. It is perishing for the want of men of courage and resolution who in devotion to the cause of right and truth, can rise above personal feeling and private ambition."

Chairmen of Corporate Boards, whether or not you write about the grave state of our political economy in your chairman's report, for posterity sake, do something!!!!

Chairmen are generally considered wise. Please heed Baltasar Gracian's admonition: "Without courage, wisdom bears no fruit."

## Additional reference:

News clipping, Sunday Times, 28 June 2015: *Stand up to bullies, Khoza tells SA's bosses*

Business, 28-June-2015-Page 5, Cyan Business, 28-June-2015-Page 5, Yellow Business, 28-June-2015-Page 5

JUNE 28 2015 | Sunday Times

Bu:

**Plea for Courage** | Chairmen should foster robust questioning, former Nedbank head urges peers

# Stand up to bullies, Khoza tells SA's bosses

THEKISO ANTHONY LERFI

REUEL Khoza, Nedbank's former chairman, has challenged South African executives to stop acting like a "thermometer that records the temperature of prevailing conditions" in the country's political economy.

The controversial businessman said this week that board chairmen should rather be "thermostats that transform and regulate the temperature of our nation".

Khoza, who had the ANC government fuming in 2012 following his scathing remarks on its leadership, said: "This hour in South African history calls for active, conscientious non-conformists."

Khoza had been expected to apologise after calling the political leaders a "strange breed" whose moral quotient was "degenerating", but he never did.

Speaking at the Directors Event held in association with MMI Holdings and the Sunday Times Top 100 Companies Awards, in Sandton this week, Khoza told a roomful of executives that there were always two parties: the party of the past and that of the future.

"Destiny is no matter of chance. It is a matter of choice. It is not a thing to be waited for, it is a thing to be achieved," said the author of *Aimed Leadership and Let Africa Lead*.

"Every corporation, driven

largely by the board, is in the process of transforming — of being an anachronism irrelevant to the future or becoming the harbinger of the future," Khoza said.

He reminded corporate leaders that companies did not operate in a vacuum but in a political economy that invariably had a bearing on the functionality of companies.

In 2007, the ANC allegedly forced First National Bank to drop its bold anti-crime campaign — estimated to have cost R10-million — which was aimed at then president Thabo Mbeki. At the time Paul Harris, a FirstRand co-founder and former CEO, spearheaded the campaign to print 15 million large posters, each bearing a letter to Mbeki, begging him to do something about violent crime.

Recalling the incident this week, Khoza said Harris should not have allowed the ANC to bully the bank.

In 2013, the ANC again lashed out at FNB after it launched a campaign giving citizens a platform to voice their concerns and hopes for South Africa. The ruling party deemed this a political statement and an attack on the government, a spokesman said.

Khoza said business people should not be afraid.

"The corporation, perforce, plays a role as a concerned, conscientious and responsible corporate citizen. The chairman



STRAIGHT TALK: Reuel Khoza at the Directors Event this week, in the run-up to the Top 100 Companies Awards

Picture: JAMES OATWAY

is, or should be, the corporate flag bearer."

But he said the notion of the chairman as a "safe pair of hands" no longer held true.

Chairmen were increasingly becoming an authority responsible for the direction and performance of the company, even though the execution control and implementation lay with CEOs, he said.

"Good chairmen are required to establish a productive board atmosphere, but the stakes are rising. Socioeconomic turbu-

lence and growing scrutiny by ... consumers, government and regulators continually shine a spotlight on ... boards, and some are found wanting."

The challenge for chairmen was to create a boardroom culture that was inclusive and robustly questioning, he said.

Non-executive directors, too, must be well versed on prevailing corporate issues and prepared to delve even deeper into the workings of the corporation. "Without courage, wisdom bears no fruit," Khoza said.

## Governance: only 40% of SA firms up to scratch

CHANTELLE BENJAMIN

ONLY 40% of South African companies are "fully embracing sound corporate practices", according to Len Konar, a director of 13 of South Africa's top companies.

Konar, who chairs Exxaro and Steinhoff and is a director of besieged platinum miner Lonmin, blames a lack of experienced leadership on the "tick-box approach" of most South African companies to corporate governance.

This is a worrying assessment, given that South Africa has had three incarnations of the King governance code for more than two decades.

Speaking this week at a roundtable event on governance at the Hilton Hotel, Johannesburg, Konar said that "only about 40% of entities have embedded corporate governance comprehensively and are operating at the level of maturity required. The remainder say they have incorporated it but have not developed the required policy or infrastructure to do so."

South Africa is likely to get a revamped governance code, King 4, in the next few years, which is likely to force companies to raise their game again.

Konar said he did not believe that the low level of compliance was because companies were trying to evade good governance principles. He attributed it to a "lack of leadership, commitment or resources", saying complying with the rules can be "an expensive process".

"The question that has to be asked is: Do companies have independent people on the board, and are they ensuring that the recommended practices of King 3 are applied?"

He said many boards did not have the right skills to implement sound governance.

"Does a parastatal like SA Air-



RAISING THE ALARM: Len Konar says boards need certain skills

ways have a commercial lawyer who understands contracts and can guide the company when it comes to signing fuel-supply contracts, or [someone with] relevant engineering expertise? Without that expertise they cannot make sound decisions," he said.

In many of South Africa's most notorious corporate collapses, including those of Regal Bank, Lesurennet and the companies run by Brett Kebble, gov-

ernance rules were flouted or given short-shrift by the CEO. In the case of Regal, for example, an independent investigation found that CEO Jeff Levenstein "confused corporate governance with thuggery".

Compliance levels are highest among the top JSE-listed companies but Konar maintains that

parastatals Eskom, Transnet, the Development Bank of SA and the Industrial Development Corporation have tried to improve their game.

"These [parastatals] are seriously committed. They bring in experts to review their performance and conduct board appraisals."

Parmi Natesan, senior governance specialist at the Institute of Directors of SA, said that one reason for some parastatals and public companies having inferior governance levels was that they operated "in a far more complex environment, which has its own challenges".

Polites, she said, could affect how these companies implemented governance policies.

"About 70% of board appraisals by the Institute of Directors have been for parastatals, which is very encouraging."

Natesan said King 4 would be more "outcomes based" than King 3.

"This will put pressure on boards to show delivery and compliance," she said.

Many boards lack the skills to implement sound governance