CGF RESEARCH INSTITUTE (PTY) LTD
Corporate Governance Framework®

ARTICLE

Somerset West
10 March 2025

CORPORATE GOVERNANCE: STAGNATION, SCRUTINY AND THE URGENT NEED FOR DIGITISATION

By Terrance M. Booysen (CGF Research Institute: CEO)

Another governance crisis waiting to happen

In recent years, corporate governance has become a hot topic following scandals like Steinhoff, Tongaat Hulett and many others, but despite increased attention, significant and material progress in improving governance practices across organisations remains alarmingly scarce. Governance frameworks in most organisations continue to be outdated, underdeveloped, and often untested and this leads to recurrent corporate failures and directors being increasingly exposed to personal liability. Furthermore, the lack of scrutiny and digitised tools to assess governance maturity and performance means that there is no real accountability until it is too late and governance failures are, therefore, likely to persist.

The stagnation of governance in organisations

Despite the undeniable importance of governance in ensuring an organisation's long-term sustainability, governance frameworks within many organisations remain static and reactive. Organisations may have a governance policy or model on paper, but few have embedded systems that continuously *monitor and evaluate* the effectiveness of these paper-based instruments.

The governance systems used to direct and control an organisation are also, in most cases, designed for compliance rather than for *continuous improvement* or proactive risk and performance management. In the past, organisations could get by with an outdated governance framework as long as they stayed within the regulatory guidelines. But the modern business environment demands a shift towards dynamic governance that allows for constant evaluation, responsiveness to emerging risks, and real-time adjustments.

The truth is that many organisations have not moved beyond the basic principles outlined in governance codes such as King IV™ which primarily focus on compliance and ethical behaviour. While these principles are essential, they fail to acknowledge the *transformational change* required to meet the complexities of modern governance.

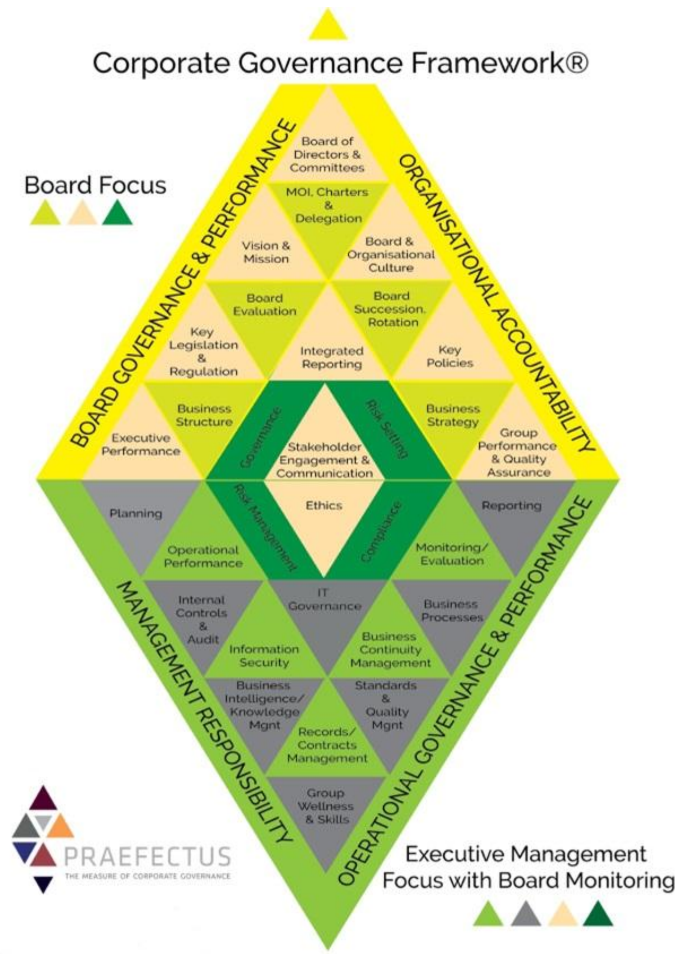
A lack of measurement and testing: Governance frameworks not being put to the test

One of the critical flaws in current manual governance models is the lack of *systematic measurement and testing*. For governance to be truly effective, *it must be tangible and it must be challenged* - not just evaluated once in a while, but consistently tested through internal and external audits, stress tests, and real-time monitoring. Without testing, organisations have no way of knowing if their governance frameworks are truly robust and capable of addressing emerging threats or strategic misalignments.

ARTICLE

The Steinhoff and Tongaat Hulett scandals -- like so many others before them -- are classic examples of how poor measurement and testing leads to ineffective governance systems and catastrophic results. In these situations, even the obvious warning signs -- which include highly pressured management cultures, aggressive financial practices, inconsistent reporting, and weak internal controls -- are at best not timeously identified or at worst, simply covered up.

The simple adage *"what is not measured is not managed"* remains true. Governance frameworks should be used to establish the accepted standards of behaviour across critical areas of the business. At the same time, these standards must be continuously reviewed to ensure they are aligned to evolving industry and regulatory requirements. Conformance to these predetermined benchmarks must also be regularly tested so that proactive action can be taken to drive improved performance.



The digitised governance gap

In today's fast-paced and interconnected world, manual governance systems (often solely represented by paper reports, static spreadsheets, and basic compliance checklists) are simply inadequate. These manual systems are *reactive, slow, and prone to untold error.*

The digitised governance framework revolution is therefore not a luxury; *it's a necessity*. Digital platforms allow for continuous monitoring and data-driven decision-making, providing the board and their executive with real-time insights into the organisation's governance performance and risk exposures. Through technologies like AI (artificial intelligence), MI (machine learning), predictive analytics and automated reporting, organisations can regularly assess their governance maturity and identify vulnerabilities before they escalate into full-blown crises.

In a digitised governance framework environment, directors can be alerted when key governance performance indicators (KPIs) are *not in line with expectations* and can use audit trails to monitor improvement activities. By using governance data to guide decision-making, governance becomes a *living process*, not something that's checked once a year and then forgotten.

The quiet and looming threat of governance failure

While the Steinhoff scandal and similar high-profile governance failures shocked the business world, the *threat of another governance crisis* remains very real. The lack of modernised, digitised governance framework systems, which allow for *real-time oversight and proactive risk management*, continues to leave organisations vulnerable to the same types of blind spots that led to previous corporate collapses. Without these systems, organisations -- including state organisations such as SAA, Transnet, Denel, SABC, PRASA and others -- are 'flying blind'.

While it may sound dramatic to say that another governance failure is "imminent," the reality is that *without meaningful change*, it's only a matter of time before we read about another corporate governance scandal, or worse, a complete organisational collapse that could have been avoided had better governance practices been implemented. A dynamic and interactive governance framework will help organisations *move beyond cosmetic compliance*.

The urgency for digital governance in the context of King V™

The draft King V™ Code for Corporate Governance has recently been published for comment. While this code reinforces the importance of transparency, accountability and sustainability, it falls short in the requirement to *transform* governance frameworks into *real-time information systems* which can drive timely and informed decision-making. Simply focussing on checklists and templates is not enough.

Changes required to break the poor governance cycle

1. **Embrace digitised governance frameworks**: This will allow the organisation's leadership and its executive to see the organisation's *real-time governance maturity*, covering a range of strategic and operational areas, with performance measurement indicators and meaningful reporting.

2. **Test your governance systems**: Governance in the organisation must not be static, it's an *on-going process* which can be managed by automating the assessment and reporting of the organisation's governance framework. The robustness of the organisation's governance framework in anticipating changes in governance risk should be actively tested, including regularly evaluated through simulations and audits.

3. **Move from compliance to proactive governance**: Compliance is important, but it's just the beginning. Predictive tools can help organisations to stay ahead and avoid governance failures. Organisations should be urged to move beyond a mere 'compliance' mindset, and integrate digital tools that enable *real-time, data-driven governance*. This means not only focusing on rules and guidelines, but on how technology can be used to improve the process of oversight, increase transparency, and reduce unwanted risk.

We face a governance reckoning

The stagnation in corporate governance is a critical issue that if left unaddressed, will contribute to further corporate governance failures, resulting in a loss of stakeholder trust, diminished shareholder value, and weakened organisational accountability. This not only undermines the integrity of individual organisations, but also *destabilises broader economic systems* by fostering inefficiency, corruption, and unsustainable business practices, ultimately eroding societal confidence in the corporate sector and hindering long-term economic growth and development.

RESEARCH INSTITUTE (PTY) LTD
Corporate Governance Framework®

ARTICLE

The transparency and accountability which is strengthened through the introduction of digitised governance frameworks often fuels a reluctance to implement digital tools to support robust and effective governance practices.

Instead of allowing the fear of exposure to perpetuate poor governance, boards and executives should embrace the valuable insights which can be gained by having timely access to governance information. By combining the strengths of governance codes with advanced digital solutions, organisations can better prepare for the challenges ahead.

ENDS
Words: 1,218

For further information contact:
Terrance M. Booysen (CGF: Chief Executive Officer) - Cell: +27 (0)82 373 2249 / E-mail: tbooysen@cgf.co.za
Jené Palmer (CGF: Director) - Cell: +27 (0)82 903 6757 / E-mail: jpalmer@cgf.co.za
CGF Research Institute (Pty) Ltd - Tel: +27 (0)11 476 8261 / Web: www.cgfresearch.co.za