High governance risk at JSE-listed telecommunications, technology, health industries

Recent research by risk solutions firm Inoxico into the external directorships of JSE-listed companies showed that the directors of South Africa's 20 largest companies held on average 14 external directorships.

JSE-listed companies in the telecommunications, technology and health industries have the highest governance risk at board level, compared to other industries in South Africa, causing a stir amongst governance observers in the country.

Research indicators

The research explores:
• Level of conflict of interest inherent within each company's board
• Number of directors per company
• BEE ratings of the listed companies
• Percentage of female directors
• Average age of directors
• Market capitalisation of the companies

It examines all JSE-listed companies across industries, scoring each from 1 (lowest implied risk) to 10 (highest). The Inoxico DSI, short for Inoxico Director Singularity Index, is an indicator of the number of other external board positions directors of a specific organisation hold. This provides a measure of the singularity of focus of directors, as well as the risk introduced into an organisation's ecosystem through relationships with stakeholders.

The research shows that the average Inoxico DSI score for the entire JSE stands at 7, which is deemed "very high".

"The correlations we have identified between the Inoxico DSI score and variables such BEE rating and average age of directors are very interesting and not always what was expected," says André Stürmer, CEO of Inoxico. For example, the largest companies in South Africa by market capitalisation may have a higher Inoxico DSI score, but the correlation is not significant, proving that many small companies also have several directors with multiple directorships.

"The Inoxico DSI expresses the level of conflict of interest that a board brings to each organisation, thereby serving two important purposes: it highlights the governance risks an organisation is exposed to through excessive and typically unidentified conflicts, and it makes the directors themselves aware of the exposure they have to legislation such as the New Companies Act," says Stürmer.

"More companies are becoming aware of the potential repercussions of international laws such as the UK Bribery Act or the US Foreign Corrupt Practices Act, which stipulates draconian penalties for companies and individuals who are associated with fraud and corruption anywhere in the world. Directors have fiduciary duties which can simply not be complied with by sitting on an excessive number of boards and it is questionable whether they can add value if their attention is spread too widely."

Safe harbour legislation falls away

While some companies are doing better than others are when it comes to managing their risks, the average Inoxico DSI score on the monitored industries on the JSE is very high.

"Although the King III Code of Conduct has dramatically increased the awareness for stronger corporate governance to protect all stakeholders, it is clear that South African organisations need to apply much more concrete tools and implement controls and processes to improve corporate governance, ultimately to avoid falling on the wrong side of the law.

"The safe harbour provision of the New Companies Act gives protection to directors implicated in negligent behaviour if they 'reasonably' informed themselves prior to decision making. However, this falls away as soon as any conflict of interest is established.

"South African listed companies still need to apply themselves much more strongly to ensure that governance is not only talked about, but truly practiced. In addition, companies need to be more mindful of the partnerships they undertake as the implications of working with someone who is not compliant can be very costly both in terms of monetary and operational penalties - for example, through the UK Bribery Act - and also in terms of damaged reputation," concludes Stürmer.