



**public enterprises**

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Department:  
Public Enterprises  
REPUBLIC OF SOUTH AFRICA

# **STATE-OWNED COMPANY BOARD EVALUATION FRAMEWORK**

**A strengthened Board Evaluation Framework  
towards improved SOC board effectiveness**

**VERSION 2 – 25 MARCH 2021**



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- Vortex Strategic Alignment: DPE Board Evaluation Gap Analysis Report – Towards a Strengthened SOC Board Performance Evaluation Framework, 6 December 2019
- DPE Board Evaluation Reference Group Questionnaire responses, September 2019
- Working documents submitted to inform Reference Group engagements - October 2019 to March 2020

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1.1	26 November 2019	Compilation of Version 1.1 Board Evaluation Framework for SOCs, tabled at reference group meeting on 26 November 2019.  (Informed by engagements with the DPE and inputs obtained from engagements with the reference group comprising DPE and SOC representatives)
1.2	6 December 2019	Refinement of Version 1.1 post reference group meeting 26 November 2019
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1.4	10 March 2020	Refinement of Version 1.3 post Cabinet release of MTSF 2019-2024, and incorporating inputs from reference group and service provider working sessions
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**APPROVAL AND CONTROL SCHEDULE:**

***Parties involved in this process acknowledge that they have read and understood the content presented herein, including all attached appendices and addendums. The parties hereby approve this document for relevant submission and/or circulation.***

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## ACRONYMS AND ABBREVIATIONS

<b>ADR</b>	Alternate Dispute Resolution
<b>AG</b>	Auditor-General
<b>AGM</b>	Annual General Meeting
<b>AQI</b>	Audit Quality Indicators
<b>BE</b>	Board Evaluation
<b>BPI</b>	Board Performance Index
<b>BPM</b>	Board Progression Matrix
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CRO</b>	Chief Risk Officer
<b>DPE</b>	Department of Public Enterprises
<b>DPME</b>	Department of Planning, Monitoring and Evaluation
<b>DPSA</b>	Department of Public Service and Administration
<b>EA</b>	External Auditor
<b>E&amp;S</b>	Environment and Social
<b>ECM</b>	External Communications Mechanism
<b>ESG</b>	Environmental, Social and Governance
<b>ESMS</b>	Environment and Social Management System
<b>EXCO</b>	Executive Committee / Executive Council
<b>G20</b>	Group of Twenty
<b>GHG</b>	Green House Gas
<b>ICT</b>	Information and Communication Technology
<b>KPA</b>	Key Performance Area
<b>KPI</b>	Key Performance Indicator
<b>LID</b>	Lead Independent Director
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MOI</b>	Memorandum of Incorporation
<b>MTSF</b>	Medium-Term Strategic Framework
<b>NDP</b>	National Development Plan
<b>NSAA</b>	National Spatial Action Area
<b>NT</b>	National Treasury
<b>OECD</b>	Organisation for Economic Co-operation and Development

<b>PFMA</b>	Public Finance Management Act No. 1 of 1999, as amended by Act No. 29 of 1999
<b>PRC</b>	Presidential Review Committee on SOEs
<b>Protocol</b>	Draft Protocol on Corporate Governance in the Public Sector, 2015
<b>PSET</b>	Post School Education and Training
<b>PWC</b>	Pricewaterhouse Coopers
<b>RB</b>	Results-Based
<b>RCC</b>	Responsible Corporate Citizenship
<b>SA</b>	South Africa
<b>SAA</b>	South African Airways
<b>SAFCOL</b>	South African Forestry Company
<b>SCM</b>	Supply Chain Management
<b>SCOPA</b>	Standing Committee on Public Accounts
<b>SDG</b>	Sustainable Development Goal
<b>SEC</b>	Social and Ethics Committee
<b>S/H</b>	Shareholder
<b>SIS</b>	Strategic Intent Statement
<b>SMART</b>	Specific, Measurable, Achievable, Realistic and Time-bound
<b>SOC</b>	State-Owned Company
<b>SOE</b>	State-Owned Entity
<b>TVET</b>	Technical and Vocational Education and Training
<b>STI</b>	Short-Term Incentive
<b>UN</b>	United Nations



## PART A: BACKGROUND AND CONTEXT TO THE BOARD EVALUATION FRAMEWORK FOR STATE-OWNED COMPANIES

### 1. CORPORATE GOVERNANCE

Governments, in both developing and developed countries, are taking concrete actions to address some of the key challenges in public entities, through strengthened corporate governance practices.

The G20/OECD Principles of Corporate Governance (2015) is globally recognised as a guide used by policymakers to evaluate and improve the legal, regulatory and institutional framework for corporate governance, with a view to support economic efficiency, transformation, sustainable growth and financial stability<sup>1</sup>.

A good corporate governance system is associated with a number of benefits for an organisation, including a public entity, among them<sup>2 3 4</sup>:

- 1) Access to external finance, which in turn can lead to larger investments, higher growth and greater employment creation. Better-governed companies are more easily able to raise financing for infrastructure and other critical services through the capital markets.
- 2) Lower costs of capital and higher company valuation, which make investments more attractive to investors, and thus also lead to growth and more employment.
- 3) Compliance with good corporate governance increases transparency and accountability at all levels, minimising opportunities for fraud and corruption and in turn protecting against legal risks.
- 4) Reduced fiscal burden and increased net contribution to the budget.
- 5) Effective management and high-performance - improved strategic decision-making and operational performance, through better allocation of resources and more efficient management within existing capacity and capability.
- 6) Reduced risk of corporate crises and scandals, a particularly important outcome given the potentially large economic and social costs of financial crises.
- 7) Preservation and strengthening of stakeholder relations and confidence. A supportive stakeholder base can generate benefits for the organisation through social and emotional support. It is the perception that stakeholders have of the company that will make it legitimate and relevant.
- 8) Boards who are perceived to have legitimacy support an organisation's ability to attract and retain talent.

<sup>1</sup> OECD - G20/OECD Principles of Corporate Governance, 2015. Accessed from <http://dx.doi.org/10.1787/9789264236882-en>

<sup>2</sup> World Bank Group – Corporate Governance of State-Owned Enterprises – A Toolkit, 2014

<sup>3</sup> Choice Connecting Ideas – What are the benefits of a sound corporate governance framework  
[choicepeers.com/blogs/corporate-governance-benefits](http://choicepeers.com/blogs/corporate-governance-benefits)

<sup>4</sup> Business Perspectives - Problems and Perspectives in Management, Volume 15, Issue 4, 2017 – SM Radebe - The benefits of good corporate governance to Small and Medium Enterprises (SMEs) in South Africa

Corporate governance in South Africa was first institutionalised by the publication of the King Report on Corporate Governance in November 1994 (King I). The Protocol on Corporate Governance in the Public Sector was first published by the Department of Public Enterprises (DPE) in 1997, with a view to inculcating the principles of good governance in the public sector and, in particular, the state-owned entities.

King I was subsequently superseded by King II in 2002, which resulted in a revised Protocol that was adopted in the same year. King II was superseded by King III in 2009.

The Companies Act (No.71 of 2008) was assented to on 8 April 2009 and provided for the incorporation, registration, organisation and management of companies and defines the relationship between companies, the shareholders and directors of boards. The act was amended in 2011 by the Companies Amendment Act (No.3 of 2011).

In 2013, the Presidential Review Committee (PRC) issued a report on the review of state-owned enterprises (SOEs), highlighting a number of corporate governance challenges and recommending key principles to guide SOE reform in South Africa, based on international experiences<sup>5</sup>.

In 2015, the Protocol was revised to align to King III, however, has been placed on hold until further notice<sup>6</sup>. There have been several changes to legislative framework, including the NT decision to hold off amending the Treasury Regulations and the publishing of King IV.

In 2016, the King IV Committee Report on Corporate Governance was published, prompted by the fundamental changes in both business and society during the 21<sup>st</sup> century<sup>7</sup>. In addition, the report provides Sector Supplements to guide governing bodies to adapt the corporate governance practices to the particular governance challenges in different sectors, whilst still giving effect to the King principles. The King supplement for SOEs applies to all public entities listed in schedules 2 and 3 of the Public Finance Management Act (No.1 of 1999, as amended) (PFMA).

The King IV Report argues that “*financial performance can no longer serve as a proxy for holistic value creation*”. The Code provides guidelines on increased compliance requirements for effective governing bodies, new governance structures such as social and ethics committees, emerging risks and opportunities from new technologies, as well as new reporting and disclosure requirements such as integrated reporting.

In terms of King IV, corporate governance is defined as the exercise of ethical leadership (competence, responsibility, accountability, fairness and transparency) and effective leadership (results-driven) by the board, towards the achievement of four governance outcomes:

- 1) Good performance,
- 2) Legitimacy,
- 3) Ethical culture, and
- 4) Effective control.

King IV positions the board as the custodian of corporate governance, with the role and responsibilities to steer and set strategic direction; approve policy and planning; govern, oversee

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<sup>5</sup> Presidential Review Committee (PRC) – Presidential Review Committee on SOEs, 2013

<sup>6</sup> DPE – Draft Protocol on Corporate Governance in the Public Sector, 2015

<sup>7</sup> The Institute of Directors in Southern Africa - King Committee Report on Corporate Governance, 2016 (King IV)

and monitor implementation and execution by management; and to ensure accountability for organisational performance. This is achieved through 17 King IV principles and recommended practices. Each of the basic principles is required to substantiate a claim that good governance is being practiced through an “apply and explain” regime.

The King IV principles embody the aspiration that boards should have in the journey towards good corporate governance. Of the 17 principles, 16 are applicable to state-owned companies (SOCs) as follows:

- 1) **Leadership:** Principle 1 – The governing body should lead ethically and effectively.
- 2) **Organisational ethics:** Principle 2 – The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.
- 3) **Responsible corporate citizenship:** Principle 3 – The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.
- 4) **Strategy and performance:** Principle 4 – The governing body should appreciate that the organisation’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.
- 5) **Reporting:** Principle 5 – The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation’s performance and its short, medium and long-term prospects.
- 6) **Primary role and responsibilities of the governing body:** Principle 6 – The governing body should serve as the focal point and custodian of corporate governance in the organisation.
- 7) **Composition of the governing body:** Principle 7 – The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.
- 8) **Committees of the governing body:** Principle 8 – The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.
- 9) **Evaluations of the performance of the governing body:** Principle 9 – The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.
- 10) **Appointment and delegation to management:** Principle 10 – The governing body should ensure that the appointment of and delegation to management contributes to role clarity, and the effective exercise of authority and responsibilities.
- 11) **Risk governance:** Principle 11 – The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.
- 12) **Technology and information governance:** Principle 12 – The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives.

- 13) **Compliance governance:** Principle 13 – The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.
- 14) **Remuneration governance:** Principle 14 – The governing body should ensure that the organisation remunerates fairly, responsibly and transparently, so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.
- 15) **Assurance:** Principle 15 – The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making, and of the organisation’s external reports.
- 16) **Stakeholder relationships:** Principle 16 – In the execution of its governance roles and responsibilities, adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

## 2. IMPROVED BOARD EFFECTIVENESS THROUGH BOARD EVALUATION

In the context of an increasing need for sound corporate governance, the importance of board evaluations was first recognised in the Dey Report (1994) in Canada. The adoption of board evaluation as a good practice by boards was later advocated in the first issue of the Combined Code of Corporate Governance, 1998. The G20/OECD Principles, as revised in 2015, is recognised as an international benchmark for corporate governance<sup>8</sup>.

Over the years, the practice of evaluating board performance has increasingly been adopted in corporate governance codes as a way to improve board effectiveness and to develop the skills of directors.

Principle 9 of King IV gives credence to the importance of board evaluation, stating that the governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness. Conducting board evaluations as a means for improving board effectiveness in the governance and oversight of SOCs is, therefore, regarded as a good practice. Necessarily, the evaluation of a board should be conducted in terms of a clear definition of what board effectiveness means and entails.

### DEFINING BOARD EFFECTIVENESS:

*“An effective board defines the company’s purpose and then sets a strategy to deliver it, underpinned by the values and behaviours that shape its culture and the way it conducts its business. It is able to explain the main trends and factors affecting the long-term success and future viability of the company<sup>9</sup>”.*

Informed by corporate governance principles, practices and guidelines, as well as other good practice planning, monitoring and evaluation frameworks that are applicable to the public sector, an effective board makes evidence-based decisions, is results-oriented and provides effective

<sup>8</sup> OECD - G20/OECD Principles of Corporate Governance, 2015

<sup>9</sup> Financial Reporting Council (FRC) – Guidance on Board Effectiveness, 2011

leadership in strategy, policy and planning; oversees and monitors the implementation and execution of strategy, and ensures accountability for performance; and ensures that board structures are functional, board operations are efficient, and stakeholder relationships and delegations are managed effectively.

In line with Principle 1 of King IV, an effective board not only leads effectively towards the achievement of results, but also leads ethically and strives to be a good corporate citizen. Through the “apply and explain” approach to implementing the applicable practices of the 16 basic governance principles, the result is the achievement of the four governance outcomes.

The concept of public sector value creation takes the above a step further and is an important component of this Board Evaluation Framework,

*“...public sector value is created through generating improved outcomes in a more cost-effective manner. Outcomes are a weighted basket of social achievements ...<sup>10</sup>”.*

In the context of revenue generating SOC's that need to balance the dual mandate of being self-sufficient and commercially viable, while delivering on developmental/social priorities for the public good, an effective board needs to be able to demonstrate how the extent of achievement of the governance outcomes translates into SOC value creation:

*SOC value creation comprises the dual mandate levers, namely, the SOC's contribution to the achievement of national priorities in terms of the National Development Plan (NDP) and the Medium-Term Strategic Framework (MTSF), while also building the financial viability and sustainability of the organisation.*

## KEY BOARD EVALUATION TRENDS:

The Board Evaluation Framework Gap Analysis Report (available separately) highlighted that board evaluation practices and maturity are influenced by the early adoption, and the development and transition of governance best practices and regulation in countries<sup>11</sup>.

In countries where governance reform is maturing, it is apparent that the focus of board evaluations is shifting from a conformance or compliance orientation towards a genuine focus on improving effectiveness and thus organisational performance. It is about adding value by identifying areas for improvement in board processes and practices, competencies and relational dynamics for improved efficiency and effectiveness. In terms of disclosure practices, a similar trend is visible where companies are shifting from mainly reporting externally on whether an evaluation had been completed or not, to reporting on qualitative evaluation information, the board's performance and its plans for improvement<sup>12</sup>.

A challenge observed in the evaluations of board performance is that the evaluation often falls short of its intention to drive high-performance and to enhance board effectiveness. This is partly due to the fact that many board evaluations are conducted for mere compliance, rather than for the true benefit such an evaluation may offer.

Boards that take only a compliance-oriented approach, or structure the process in a way that prevents a true examination of the impediments to board effectiveness, lose the opportunity to gain

<sup>10</sup> Accenture Consulting (Book Authored by Accenture Executives) - *Unlocking Public Value: A New Model for Achieving High-performance in Public Service Organizations*, 2006

<sup>11</sup> Vortex Strategic Alignment: DPE Board Evaluation Gap Analysis Report – *Towards a Strengthened SOC Board Performance Evaluation Framework*, 6 December 2019

<sup>12</sup> Corporate Secretaries International Association (CSIA) - *Global Board Evaluation Practices and Trends*, March 2018



valuable shared insight into the operations of the board and ways to improve its composition, processes and relationships.

Many board evaluation processes focus more on the internal composition and functioning of the board, which, while a critical component of effectiveness, does not reflect the impact of the board in leading the SOC to creating value (as defined earlier) through its contribution to the achievement of national priorities, and ensuring the financial viability and sustainability of the organisation.

Well conducted board evaluations should provide a platform for directors to review and strengthen relevant board and leadership practices, and to ensure that issues are identified and addressed timeously. In short, evaluations provide the board with the opportunity to identify and remove obstacles to better performance, and to grow and develop through the adoption of best practices. The shareholder also has a role to play in providing the board with the necessary support to address certain board evaluation findings.

### **FUNDAMENTALS OF THE BOARD EVALUATION FRAMEWORK:**

As board effectiveness is about effective strategic leadership, effective oversight and accountability for performance, and effective management of board structures and operations, delegations, stakeholder relationships and ethical leadership, this Board Evaluation Framework needs to stipulate the requirements of effectiveness that will be evaluated in terms of the standards of the evaluation tools.

Board evaluations need to indicate the extent of achievement of the four governance outcomes as per King IV. In turn, the outcomes may be linked to the extent of achievement of SOC value creation.

## **3. THE LEGISLATIVE AND GOVERNANCE FRAMEWORK OF SOCs**

At the apex of the legislative framework informing the work of SOCs is the Constitution of the Republic of South Africa, Act 108 of 1996, as the supreme law of the Republic of South Africa.

Along with the Bill of Rights, the Constitution forms the legal foundation of a democratic South Africa, sets out the rights and duties of its citizens and defines the structure of the government. All laws of the country must be consistent with the Constitution, and it further requires that all spheres of government work together to address poverty, underdevelopment, marginalisation of individuals and communities and other legacies of Apartheid and discrimination.

In this light, all government institutions, entities and municipalities ultimately derive their mandate from the Constitution; and the Constitution underscores the importance of intergovernmental, interdepartmental and international co-operation in the delivery of functions and services to, and on behalf of, the people of South Africa.

Where the Constitution provides the broad context to the mandate of the SOCs, the SOC must further comply with all national and provincial legislation and regulations, and all municipal by-laws, applicable to its functions or the areas in which it operates. The following legislation and regulations regulate how SOC boards must operate in giving effect to the SOCs respective mandates:

Legislation	Description
<p>Companies Act (No.71 of 2008), Companies Amendment Act (No.3 of 2011)</p> <p>(Companies Act)</p>	<p>The Companies Act provides for, amongst other matters, the incorporation, registration, organisation and management of companies and defines the relationship between companies, their shareholders and directors of the board.</p> <p>In the DPE portfolio, all SOC's are registered and incorporated in terms of the Companies Act. Each SOC has its own Memorandum of Incorporation (MOI), which sets out the rights, duties and responsibilities of shareholders, directors and others within and in relation to the SOC, and other related matters.</p> <p>The shareholder, represented by the Minister, is entitled to exercise voting rights, in terms of the appointment of directors, setting of board fees, remuneration policy, executive remuneration and the appointment of auditors.</p> <p>Directors and management have, <i>inter-alia</i>, fiduciary duties, stewardship, strategy, organisational structure, operations, risk management, performance and results, and an established code of conduct.</p> <p>Section 75 specifies the requirements for directors to declare personal financial interests and Section 76 outlines the standards of directors' conduct for Board and Prescribed Officers, who must exercise the powers and perform the functions:</p> <ul style="list-style-type: none"> <li>▪ in good faith and for a proper purpose;</li> <li>▪ in the best interests of the company; and</li> <li>▪ with the degree of care, skill and diligence that may reasonably be expected of a person.</li> </ul>
<p>Public Finance Management Act (No. 1 of 1999, as amended) (PFMA)</p> <p>and</p> <p>Treasury Regulations for Departments, Trading Entities, Constitutional Institutions and Public Entities (NT Regulations)</p>	<p>Establishes the accountability of the board and requires directors to exercise the duty of utmost care, so as to ensure reasonable protection of the SOC's assets and records.</p> <p>The PFMA imposes stringent reporting and financial accountability provisions on the SOC.</p> <p>The responsibilities of the various role-players are defined in the following sections of the Act:</p> <ul style="list-style-type: none"> <li>▪ Chapter 6 – Public Entities' Accounting Authorities. <ul style="list-style-type: none"> <li>– The reporting requirements in terms of Corporate Plans, Annual Reports, and Powers of the Accounting Authority as captured in the Significance of Materiality Framework emanate from this section.</li> <li>– Chapter 7 – Executive Authorities.</li> <li>– Chapter 8 – Loans and Guarantees.</li> <li>– Chapter 10 – Financial Misconduct.</li> </ul> </li> <li>▪ In the event of conflict between the provisions of the Companies Act and the PFMA, the provisions of the PFMA take precedent.</li> </ul>

Legislation	Description
	<ul style="list-style-type: none"> <li>Part 9 of the NT Regulations provides requirements for short-term and longer-term planning, budgeting and reporting for SOC's.</li> </ul>
Founding Legislation:	<p>All the SOC's, except for Denel, owe their existence to their founding legislation, which typically determines their specific public mandates and provides for their establishment, control, powers, functions and funding.</p> <p>The founding legislation is entity specific, briefly described below:</p>
1. Alexkor Limited Act (No. 116 of 1992)	A diamond mining company that operates primarily in Alexander Bay and the greater Namaqualand area.
2. Denel – Established as a company in terms of the Companies Act	A defence company with government exercising full control over it.
3. South African Express Act (No. 34 of 2007)	SA Express is a domestic and regional air carrier with a mandate to be an African airline.
4. South African Airways Act (No. 5 of 2007)	SAA is a South African national airline with a mandate to be an African airline.
5. Management of State Forests Act (No. 128 of 1992)	SAFCOL is Government's forestry company, which conducts timber, harvesting, timber processing and related activities both domestically and regionally.
6. Eskom Conversion Act (No. 13 of 2001)	Eskom generates, transmits and distributes electricity to industrial mining, commercial, agricultural and residential customers and redistributors.
7. Transnet – Legal succession to the South African Transport Service Act (No. 9 of 1989)	Transnet is a freights and logistics company responsible for pipelines, ports, and rail transport infrastructure and operations.

Where the legislation and regulations regulate how boards must operate in giving effect to the SOC's mandate, various international and national policy and strategy frameworks inform how the SOC's mandate should be implemented, *inter-alia*:

Policy/Strategy Framework	Description
National Development Plan, Vision 2030	<p>Adopted by Cabinet in 2012, the NDP is the visionary blueprint of government, with business and society as collaborative partners – seeking to eliminate poverty and sharply reduce inequality and unemployment by 2030.</p> <p>All of government is challenged to ensure their medium and short-term planning, and monitoring and evaluation processes are aligned to the NDP.</p>



Policy/Strategy Framework	Description
	<p>Inclusive growth and development, an active and united citizenry and a capable State are some of the visionary elements of the NDP 2030.</p> <p><i>SOCs must reflect their contribution to the NDP in their strategic and corporate plans.</i></p>
UN Sustainable Development Goals, 2015 (SDGs)	<p>Adopted by the United Nations in 2015, the 17 SDGs and their 169 key indicators build on the successes of the Millennium Development Goals, while including new areas, such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, among others. The SDGs set a common sustainable development agenda for pursuit by all signatory nations, including South Africa.</p> <p>South Africa's contribution to the SDG negotiation process was informed by the priorities of its National Development Plan (NDP).</p> <p>Echoing the intent of the National Development Plan, in support of the SDGs, South Africa can realise the goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the State, and promoting leadership and partnerships throughout society.</p>
African Union Agenda 2063	<p>Aligned to the UN SDGs, the African Union Agenda 2063 reflects the following aspirations:</p> <ol style="list-style-type: none"> <li>1) A prosperous Africa based on inclusive growth and sustainable development.</li> <li>2) An integrated continent, politically united and based on the ideals of Pan- Africanism and the vision of Africa's Renaissance.</li> <li>3) An Africa of good governance, democracy, respect for human rights, justice and the rule of law.</li> <li>4) A peaceful and secure Africa.</li> <li>5) An Africa with a strong cultural identity, common heritage, values and ethics.</li> <li>6) An Africa where development is people-driven, unleashing the potential of its women and youth.</li> <li>7) Africa as a strong, united and influential global player and partner.</li> </ol>
National Spatial Development Framework, 2050	<p>Under the theme: "moving South Africa forward towards the desired Spatial Future", the national Spatial Development Framework sets out an action plan to bring about radical spatial transformation at scale, and manage and mitigate national risks (current and emerging).</p> <p>It proposes a set of five National Spatial Action Areas (NSAAs), which require urgent, focused and integrated national spatial infrastructure investment and spending; and concerted and sustained intergovernmental collaboration, including the alignment of plans, budgets and departmental plans in and between the</p>

Policy/Strategy Framework	Description
	spheres of government.
Medium-Term Strategic Framework 2019-2024 (MTSF)	<p>The MTSF is a high-level strategic document and is the central organising framework to guide the five-year implementation and monitoring of the NDP, 2030.</p> <p>In line with the electoral mandate, the MTSF identifies the priorities to be undertaken during the five-year electoral period to put the country on a positive trajectory towards the achievement of the 2030 vision. It sets targets for implementation of the priorities and interventions for the five-year period, and states the outcomes and indicators to be monitored</p> <p>The seven MTSF priorities for 2019-2024 are:</p> <ol style="list-style-type: none"> <li>1) A capable, ethical and developmental State.</li> <li>2) Economic transformation and job creation.</li> <li>3) Education, skills and health.</li> <li>4) Consolidating the social wage through reliable and quality basic services.</li> <li>5) Spatial integration, human settlements and local government.</li> <li>6) Social cohesion and safe communities.</li> <li>7) A better Africa and World.</li> </ol> <p><i>SOCs must reflect their contribution to the MTSF in their strategic and corporate plans.</i></p>

Introduced in section 2, and summarised here, the following key corporate governance frameworks govern the strategic leadership, governance and oversight role of SOC boards, and underpin sound corporate governance, planning, monitoring and evaluation practices:

Key Governance, Planning and M&E Frameworks	Description
King Report on Corporate Governance in South Africa, 2016 (King IV) (Including Sector Guidelines)	<p>The King IV Code sets out the philosophy, principles, practices and outcomes which serve as the benchmark for corporate governance in South Africa.</p> <p>King IV contains more succinct and fewer principles for easier interpretation and implementation.</p> <p>Sector supplements, published alongside King IV, aid its interpretation by organisations in different sectors – including the public sector.</p>
Draft Protocol of Corporate Governance in the Public Sector, 2015 (the Protocol)	<p>The Protocol was developed to provide public entities in the public sector with specific guidelines for the implementation of good corporate governance practices, and to guide departments in the exercise of their shareholder oversight of these SOC's.</p> <p><i>The guideline is a draft, and was placed on hold due to changes in the legislative framework.</i></p>

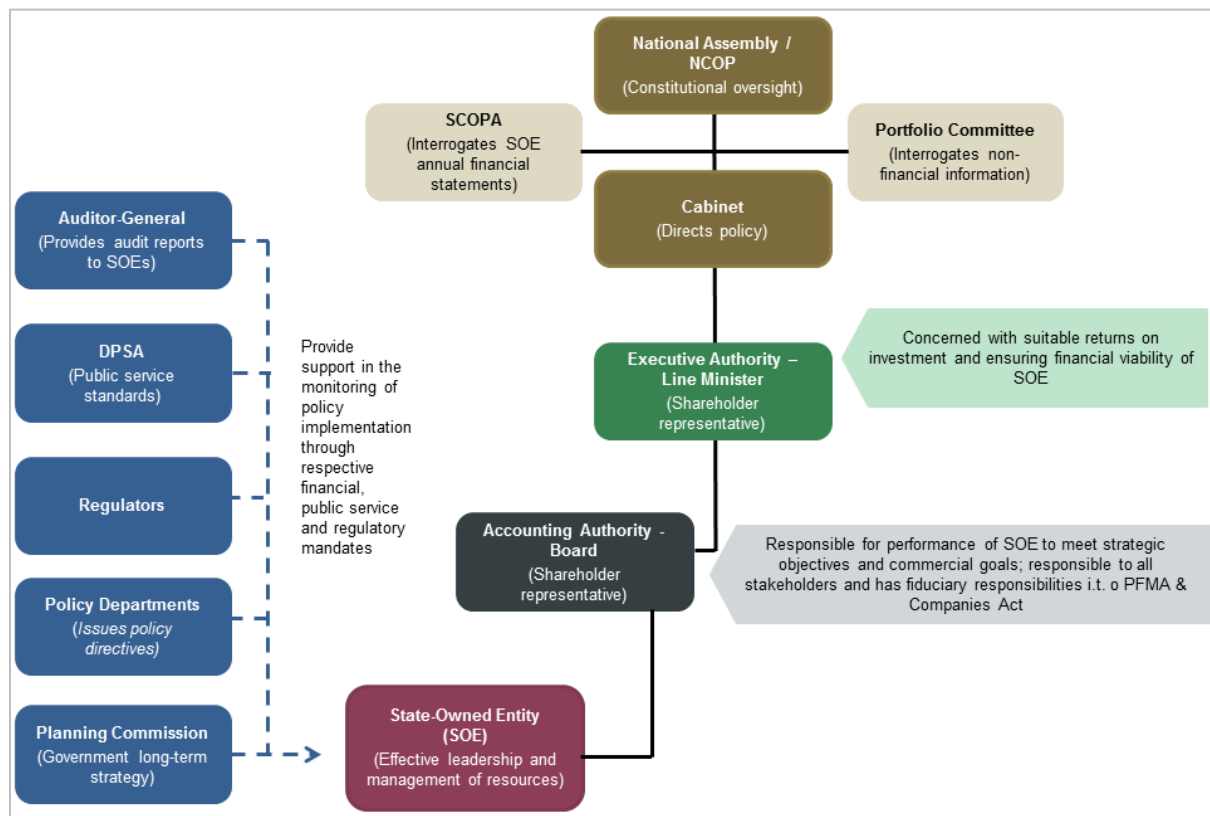
Key Governance, Planning and M&E Frameworks	Description
Guide for State-Owned Companies - Remuneration and Incentives for Executive Directors, Prescribed Officers and Non-Executive Directors, 2018 (Remuneration Guideline)	<p>The guideline determines that short-term incentives (STIs) to executive directors and prescribed officers will be subject to performance being met against the corporate and individual scorecards, aligned to the shareholder's compact.</p> <p>The following set of performance gatekeepers are included in the shareholder's compact, as minimum performance requirements before any STI can be paid:</p> <ul style="list-style-type: none"> <li>▪ Meeting loan or guarantee conditions.</li> <li>▪ Achieving performance measures outlined in the shareholder's compact.</li> <li>▪ Favourable audit outcome (not qualified or adverse opinion).</li> <li>▪ 80% of total sum of performance targets met; and/or</li> <li>▪ 80% of the total sum of socio-economic targets met.</li> </ul>
Draft Guideline for Corporate Planning and Shareholder Compact, September 2002 (NT Guideline)	<p>The guideline is applicable to Schedule 2, 3B and 3D major public entities and is intended to facilitate the smooth implementation of the PFMA and regulations in the affected entities, through a shared understanding of the requirements.</p> <p>The guideline provides a framework for uniform corporate planning in above public entities; however, it has not kept pace with the planning reforms that have taken place in the public sector towards results-based planning and management of performance.</p> <p><i>Whilst the guideline is a draft, it has been widely adopted by SOCs.</i></p>
Guidelines for SOC Corporate Plan Content and Format, 2014	<p>The guideline regarding form and content assists SOCs in the preparation of their corporate plans and provides templates indicating the minimum level of information required by the Executive Authority. (Based on the NT guide and expand upon requirements specified in PFMA, Regulations and Companies Act.</p>

#### 4. SOUTH AFRICAN STATE-OWNED COMPANY GOVERNANCE STRUCTURE

Corporate governance oversight of South African state-owned companies (SOCs) vests in Parliament, the respective Executive Authorities and the Accounting Authorities (boards) of the SOCs.

The figure below depicts the typical governance structure of SOCs in South Africa<sup>13</sup>:

<sup>13</sup> PWC - State-Owned Enterprises: Governance Responsibility and Accountability, Public Sector Working Group: Position Paper 3, 2011

**Figure 1: Typical governance structure of SOCs in South Africa**

Source: PWC – PSWG Position Paper 3

The roles and responsibilities of the key actors in SOC governance are as follows:

- 1) **Parliament:** Constitutional oversight of the performance of SOCs rests with Parliament (being the National Assembly and the National Council of Provinces, and its portfolio committees, public accounts committees and joint committees).
  - a) The Standing Committee on Public Accounts (SCOPA) interrogates the annual financial statements and the Auditor-General reports of SOCs;
  - b) Portfolio committees review the non-financial information in annual reports of SOCs, namely, the service delivery performance of SOCs.
- 2) **Auditor-General:** Is accountable to Parliament and provides audit reports on the SOCs. According to the Constitution, the Auditor-General audits the accounts, financial statements and management of all departments or entities required by legislation, except those he/she has opted not to audit as referred to in Section 25(1) of the Public Audit Act (No. 25 of 2004).  
  
This audit includes the audit of reporting on performance against predetermined objectives, otherwise known as performance information.
- 3) **Cabinet and Policy Departments:** The ultimate authority to direct policy vests in Cabinet, comprising the various ministers. Cabinet decides on the appropriate and desired policy to meet the defined priorities and outcomes of the Country, as outlined in the electoral manifesto and longer-range developmental strategies. Through their portfolios and

departments, ministers set policy directives and ensure that the necessary structures, processes and activities are in place within the SOC's to implement such policy.

National Treasury, the Department of Planning, Monitoring and Evaluation (DPME), the Department of Public Enterprises (DPE) and other shareholder departments, and various regulators, provide support in the monitoring of policy implementation through respective financial, oversight and regulatory mandates.

The DPSA is the custodian of the Guide for the appointment of persons to boards of state and state controlled institutions, which all Executive Authorities having shareholder responsibilities over the SOC's should comply with.

- 4) **Executive Authority:** The PFMA defines the Executive Authority as the Cabinet member who is accountable to Parliament for the SOC. As shareholder representative, the Executive Authority is responsible for ensuring the effective and efficient provision of the service delivery requirements, and is concerned with a suitable return on investments and ensuring the financial viability of the SOC.

Oversight accountability by the Executive Authority is informed by the National Development Plan, Vision 2030; the Medium-Term Strategic Framework of the current administration (MTSF); and the performance agreement signed between the President and the Minister. The oversight role of the Executive Authority is governed, by and large, on the prescripts of the PFMA for oversight powers, with particular reference to the corporate plan, shareholder compact, significance and materiality framework, and quarterly and annual reporting.

The Executive Authority also has the power to appoint and dismiss the board, and must ensure that the appropriate mix of executive and non-executive directors are appointed, and that directors have the necessary skills and capabilities to lead the SOC.

- 5) **Accounting Authority (Board):** The board of directors is the custodian of corporate governance in a SOC; and the governance principles regarding the roles and responsibility of the board are contained in the Companies Act, the PFMA, Protocol on Corporate Governance and the King IV report.

The board is responsible and fully accountable to the shareholder for achieving its strategic objectives as agreed with the shareholder minister, whilst at the same time achieving its commercial objectives. In addition, the board is responsible to other stakeholders, inter alia, consumers of the SOC's goods and services, lenders, employees and the general public. The board of an SOC also carries certain fiduciary responsibilities in terms of the Companies Act, the PFMA and Common Law.

- 6) **State-Owned Company:** The Companies Act established the term "state-owned company", which is defined in Section 1 as an enterprise that is registered in terms of the Act as a company, and is either listed as a public entity in terms of Schedule 2 or 3 of the PFMA or is owned by a municipality, as contemplated in the Municipal Systems Act (No. 32 of 2000).

## 5. DUTIES AND RESPONSIBILITIES OF DIRECTORS

The legal duties and responsibilities of directors arise from the following sources: The Constitution of South Africa, the PFMA and National Treasury regulations, the Companies Act and regulations,

the respective founding legislation, Common Law and the Memorandum of Incorporation of the SOC.

SOCs fall within the ambit of the PFMA, which means that they need to comply with provisions over and above those of the Companies Act. In the event of conflict between the provisions of the PFMA and those of the Companies Act, the provisions of the PFMA takes precedence. The individual directors, and the board as a whole, carry full fiduciary responsibility, and the PFMA provides that the board of a SOC must exercise the utmost care to ensure reasonable protection of the assets and records of the SOC; and act with fidelity and in the best interests of the SOC in managing the financial affairs of the SOC. On request, the board must disclose to the Minister to which the SOC is accountable and seek, within limits, to prevent any prejudice to the financial interests of the State.

Section 66(1)2 of the Companies Act requires a SOC to have a board of directors, which has the authority to exercise all of the powers and perform any of the functions of the SOC, except if limited by the Companies Act or Memorandum of Incorporation. The board of a SOC should comprise at least three directors. The board of directors is accountable to the shareholder for the performance and affairs of the SOC. The Companies Act sets out standards of directors' duties, namely, to act:

- 1) In good faith and for proper purpose;
- 2) In the best interests of the SOE; and
- 3) With the degree of care, skill and diligence that may reasonably be expected of a person who carries out the same functions as a director in relation to the SOC, and who has the knowledge, skill and experience of that director.

The King IV principles embody the aspiration that boards should have in the journey towards good corporate governance and high-performance.

While the King IV Report is not legally binding, its principles have been used as a benchmark against which the conduct of directors should be measured and was found to be binding on state-owned entities. King IV emphasises that directors must act with independence in the best interests of the entity<sup>14</sup>.

The Protocol provides a detailed description of both the fiduciary duties, and duties of care and skill of directors<sup>15</sup>.

The figure below provides a brief summary of these duties as outlined in the Protocol.

<sup>14</sup> Schoeman Law Inc. – *Governance in State-owned Enterprises – How they are held accountable*, 2018

<sup>15</sup> Department of Public Enterprises – *Draft Protocol on Corporate Governance in the Public Sector*, 2015



**Figure 2: Summary of legal duties of directors**

	PFMA	Companies Act	Common Law
Fiduciary Duties	<ul style="list-style-type: none"> <li>Exercise utmost care</li> <li>Reasonable protection of assets and records</li> <li>Act with fidelity, honesty, integrity and in the best interest of the SOC</li> <li>Disclose all material facts to shareholder</li> <li>Carry out fiduciary duties in accordance with the Companies Act and common law principles</li> </ul>	<ul style="list-style-type: none"> <li>Act in best interest of the SOC</li> <li>Act in good faith, and for a proper purpose</li> <li>Not use position/information to gain advantage for self or others, and cause harm to the SOC</li> <li>Disclose material information/conflict of interest (and recuse)</li> <li>Not abuse office/information for personal gain</li> </ul>	<ul style="list-style-type: none"> <li>Act in good faith and in the best interest of the SOC</li> <li>Carry out dealings honestly on behalf of the SOC</li> <li>Avoid personal conflicts</li> <li>Disclose personal interest</li> <li>Act for proper purpose</li> <li>Not exceed powers of the SOC</li> <li>Exercise discretion independently</li> <li>Not disclose or use confidential information</li> <li>Account for secret profits</li> </ul>
Duties of Care & Skill		<p>Act with skill, care and diligence reasonably expected of someone who fulfils the function, and have similar knowledge, skills and experience:</p> <ul style="list-style-type: none"> <li>Have minimum skills, but not expected to be an expert</li> <li>Rely on professional advice and inputs</li> <li>Take all reasonable steps to diligently inform himself/herself before decision-making</li> </ul>	<p>Display reasonable skill and care:</p> <ul style="list-style-type: none"> <li>Exercise level of skill required from a director</li> <li>Must devote full attention to the business of the SOC</li> </ul>

Source: Summarised from the DPE draft Protocol of Corporate Governance in the Public Sector

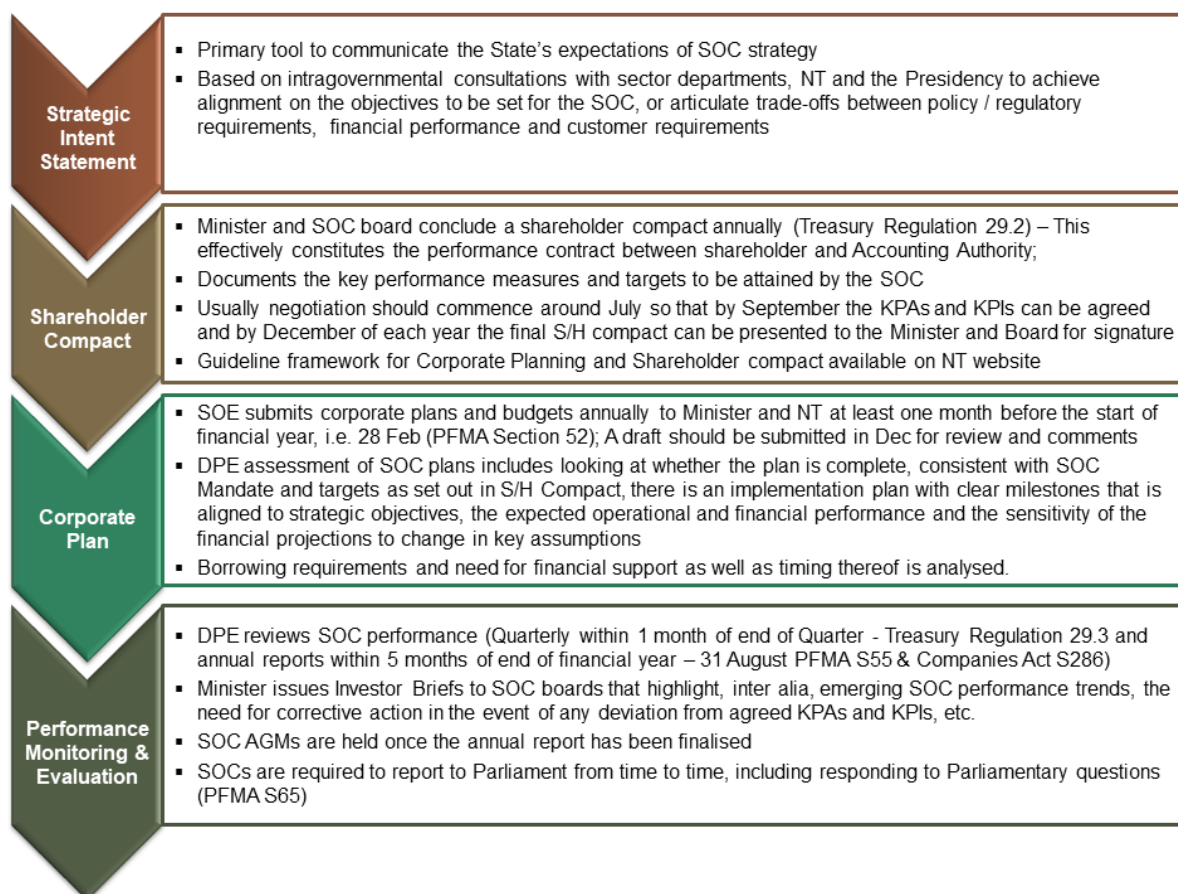
## 6. DPE SHAREHOLDER MANAGEMENT FRAMEWORK

Since 1994, the South African government has made progress in strengthening the legislative and policy environment to support accountability and good governance, which are cornerstones of public administration in the Republic of South Africa.

A key requirement of the SOC is to report and account for their performance to the relevant Executive Authority in respect of financial and non-financial matters, while at the same time maintaining independence in the conduct of their duties and free from day-to-day involvement by the Executive Authority.

The DPE has implemented, and continues to strengthen, the shareholder management process, to support the Minister in fulfilling his/her role as Executive Authority and shareholder representative in relation to the SOC<sup>16</sup>.

**Figure 3: Current DPE Logical Planning and Shareholder Management Framework**



Source: DPE – Portfolio Committee Presentation August 2019

The following section provides an overview of the instruments of the DPE Logical Planning and Shareholder Management Framework; and reflects briefly on the current practices and key challenges.

#### MEMORANDUM OF INCORPORATION:

The Companies Act defines the Memorandum of Incorporation (MOI), as the document that sets out rights, duties and responsibilities of shareholders, directors and others within and in relation to a company. It is the SOC's constitutional document and internal code of corporate governance; and confirms to third parties whether the company has any restrictive conditions.

The Companies Act imposes certain specific requirements on the content of a MOI, as it is necessary to protect the interests of the shareholders of the company, and provides for a number of default company rules/alterable provisions, which companies may accept or alter as long as it is in line with the Companies Act.

<sup>16</sup> Department of Public Enterprises – Presentation on Logical Planning and Performance Monitoring Framework, August 2019



While all SOC's have signed MOIs in place, a key challenge is the non-compliance of certain boards to table board evaluation reports at the Annual General Meeting (AGM).

### STRATEGIC INTENT STATEMENT:

The strategic intent statement (SIS) is issued by the Minister of Public Enterprises, to communicate the shareholder's expectation of the SOC for the next three-year reporting period. It is reviewable as and when necessary by the Shareholder. The SIS confirms the SOC's mandate; and clarifies and confirms the strategic objectives to be attained by the SOC during a three-year reporting period.

The SIS presents strategic objectives for a three-year period, which form the basis of the SOC planning process and inform the development of the annual shareholder compact and corporate plan.

The practice of issuing an annually updated SIS, for a rolling three-year period, entrenches short-term thinking and planning; yet the SIS as a strategic document should have a longer-term focus. By adopting results/outcomes-based approaches, the SIS may be strengthened by aligning it with the five-year planning cycle of the MTSF and stipulating the contribution that the SOC needs to make towards the achievement of national priorities over the five-year period.

### SHAREHOLDER'S COMPACT:

The Shareholder's Compact is a legal requirement arising from the PFMA (Section 52), which must be concluded before the finalisation of the corporate plan. The shareholder's compact serves as the "*performance contract*" between the shareholder minister and the board of the SOC.

The Treasury Regulations impose on the Accounting Authority the need to conclude, in consultation with the Executive Authority, a shareholder's compact on an annual basis; and that it must document the mandated key performance objectives and indicators to be achieved by the SOC as agreed between the Accounting Authority and the Executive Authority<sup>17</sup>.

It describes the relationship between the signatories and identifies the behaviour that would be required on both sides to support effective management and performance of the entity – it clarifies the roles, responsibilities and conduct of all parties; it details the performance expectations of each party and clarifies reporting and disclosure requirements.

A key challenge has been that shareholder's compacts are often signed late, or not at all, which has a direct impact on the shareholder's ability to hold the board to account for governance and organisational performance.

Generally, the indicators and targets defined in the shareholder's compacts are not at a strategic level and are too operational in nature<sup>18</sup>. Opportunities exist to better structure the performance measures through the adoption of results/outcomes-based approaches in line with recent public sector planning reforms<sup>19</sup>.

<sup>17</sup> National Treasury – Regulations for Departments, Trading Entities, Constitutional Institutions and Public Entities, 2002

<sup>18</sup> Vortex Strategic Alignment: DPE Board Evaluation Gap Analysis Report – Towards a Strengthened SOC Board Performance Evaluation Framework, 6 December 2019

<sup>19</sup> Department of Planning, Monitoring and Evaluation – Revised Framework for Strategic Plans and Annual Performance Plans, 2019

It is, however, acknowledged that the current state of affairs of SOC's has meant that boards have had to adopt a more operational and hands-on approach to the implementation of strategy. Therefore, while it is understandable why short-term, survival-mode, indicators may be the focus, the shareholder's compact necessarily needs to reflect the outcomes and intended impact(s) expected of the SOC.

The SOC reports on the achievement of pre-determined targets in its integrated report. The reporting should also reflect on how the SOC has performed against the non-negotiable targets.

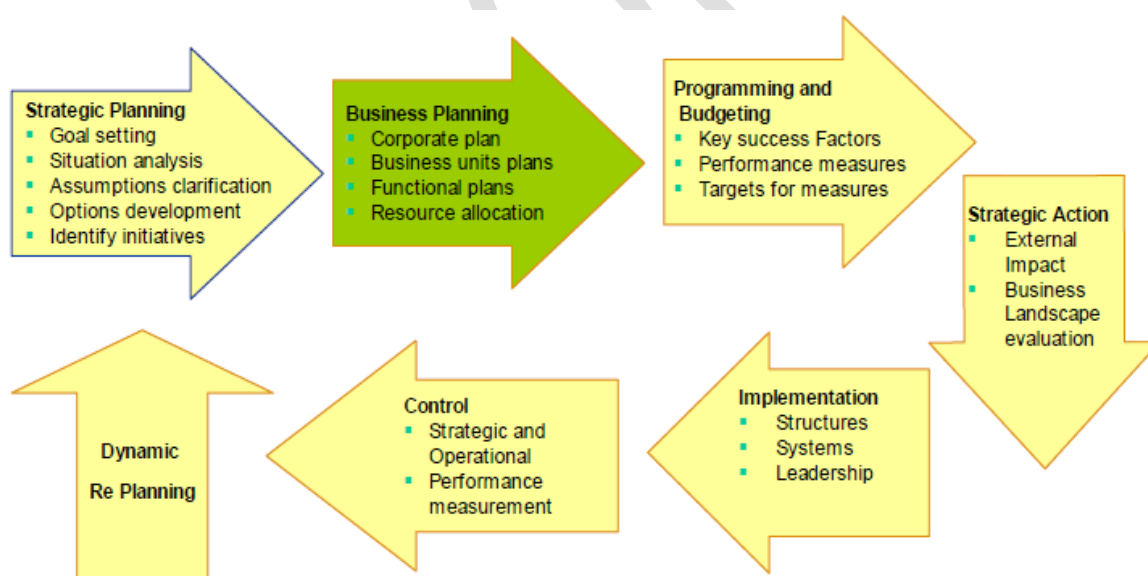
For example, the SOC reports on the achievement of pre-determined targets in its integrated report. The same reporting should also reflect on how the SOC has performed against the non-negotiable targets in aligning the payment of incentives to performance.

### CORPORATE PLAN AND BUDGET:

Informed by the SIS and shareholder's compact, the corporate plan contains information regarding the organisation's strategic thinking, direction, and actions towards the achievement of consistent and planned results. It is developed in line with the Treasury Regulations<sup>20</sup> and the DPE corporate planning format guideline<sup>21</sup>.

In line with these regulations and guidelines, the figure below depicts the current SOC planning process.

**Figure 4: SOC planning process**



Source: National Treasury - Guideline for Corporate Planning and Shareholder's compact, 2002

The corporate plan reflects how the SOC has interpreted its mandate and how it plans to apply its resources in meeting its mandate in an effective, efficient, economical and equitable manner, over the planning period of three years.

<sup>20</sup> National Treasury – Regulations for Departments, Trading Entities, Constitutional Institutions and Public Entities, 2002

<sup>21</sup> Department of Public Enterprises - Guidelines for SOC Corporate Plan Content and Format, 2014

The corporate plan is designed to support the leadership within the organisation through a concise presentation of the result of strategic planning and budgeting at operational level<sup>22</sup>. It is not a duplication or substitution to strategic planning or business level planning.

The corporate plan and aligned budget set out the actions required, and identify the resources available, to deliver the stated aims and objectives of the SOC, on an annual basis over a rolling period of three years. The corporate plan and budget should be aligned to the legislative prescripts and the National Treasury Regulations.

The SOC corporate plan is submitted to the shareholder minister, however, as it is not widely published, it does not carry the weight that publishing should bring in terms of accountability.

**NOTE:**

*The National Treasury Guideline for Corporate Planning and Shareholder's Compact<sup>23</sup> was developed in 2002 and the DPE Guideline for SOE Corporate Plan Content and Format was approved in 2014.*

*However, the Government-wide Planning, Monitoring and Evaluation Framework has evolved significantly in the period since 2008<sup>24</sup>, and the focus has turned to a results-based approach and "theory of change" logic model, which defines the hierarchy of performance information at the various levels of planning, with an emphasis on aligning public sector institutional plans with the priorities of government.*

*Therefore, there is a need to review and align the SOC planning framework with that of the broader public sector.*

Key challenges with the current corporate planning and budgeting approach include:

- 1) In some instances, the DPE feedback to SOCs regarding corporate plans indicates non-compliance with requirements.
- 2) Whilst all SOCs include a narrative about the SOC's strategic outlook in their integrated reports, the process of strategic planning is not underpinned by the results-based approach followed in the public sector, and does not result in a strategic plan with clearly defined "theory of change" and measurable (SMART) targets – resulting in an inability to measure the true SOC impact and outcomes over the medium to longer-term.
- 3) The absence of the results-based approach in the development of annual corporate plans is evident from the, often long, list of KPAs, KPIs and targets in the corporate plan, not sufficiently aligned to longer-term results or outcomes.

King IV emphasises the outcomes and results-oriented approach to corporate governance, including through the recommended planning practices outlined in Principle 4. It is, therefore, imperative to incorporate results-based approaches within a model for board effectiveness, as the basis for evaluating boards.

<sup>22</sup> National Treasury – Draft Guideline for Corporate Planning and Shareholder Compact, September 2002

<sup>23</sup> National Treasury – Draft Guideline for Corporate Planning and Shareholder Compact, September 2002

<sup>24</sup> Department of Planning, Monitoring and Evaluation – Revised Framework for Strategic Plans and Annual Performance Plans, 2019

## QUARTERLY AND ANNUAL PERFORMANCE REPORTS:

Monitoring and evaluation (M&E) processes assist the public sector in assessing its performance and identifying the factors which contribute to its service delivery outcomes.

The DPE assesses the SOC performance reports and the Minister issues an investor's brief to the Accounting Authority on emerging performance trends, highlighting corrective actions required where there is deviation from predetermined performance measures.

Key challenges in the current quarterly and annual reporting process include:

- 1) Reporting is historic in nature and does not provide the shareholder with sufficient early warning of emerging risks and/or challenges that may have a material impact on the SOC's ability to achieve the strategic intent.
- 2) Reporting is often performed simply as a compliance exercise, with the result that the performance feedback and reporting is not transparent enough to inform the shareholder and stakeholders about potentially material issues that may impact on the SOC's sustainability.
- 3) The remuneration gatekeepers serve as minimum requirements to be achieved, prior to the payment of short-term incentives to SOC executives and prescribed officers – enforcing the need for alignment between individual and organisational performance.

The reporting on how the SOC has performed against the non-negotiable targets should be clearly depicted in the SOC integrated report. Sufficient time must be provided between submission of the integrated report and holding of the AGM for an informed assessment to be made.

## BOARD EVALUATION:

Principle 9 of **King IV** states that the governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, is conducted at least every two years to improve its performance and effectiveness.

- 1) The Accounting Authority should assume responsibility.
- 2) In the absence of a Nomination Committee, the Accounting Authority should appoint an independent non-executive member to lead the evaluation.
- 3) A formal process should be followed at least every two years.
- 4) Every alternate year, an opportunity to consider, reflect and discuss board effectiveness should be included in the annual work plan.
- 5) The Accounting Authority should disclose a description of the evaluation undertaken, provide an overview of the results and remedial action, and reflect on whether the Accounting Authority is satisfied that the evaluation process is improving the board's effectiveness.

Whilst King IV states the need for a board evaluation at least every two years, the DPE requires the SOC boards to conduct an annual board evaluation, facilitated by an independent external service provider, particularly as the review of board composition is an annual exercise.

The DPE also has the option of conducting an interim board evaluation, where the Executive Authority needs more comprehensive information, or where information obtained from the

independent board evaluations are questionable.

The Memorandum of Incorporation requires SOC's to consider the effectiveness of the board at the AGM, through the review of the Board Evaluation Report.

The Board Charter of the SOC's generally refers to the boards' commitment to conduct board evaluations of the board, its committees and its individual directors.

Board evaluations are historic in nature and, unless interpreted in conjunction with quarterly performance reports, SOC risk registers and any disclosures made by the board regarding issues that have a material impact on the SOC's ability to achieve its strategic objectives, it cannot be expected to provide early warning of future risks and challenges in leadership or governance.

Board evaluations provide a review of board effectiveness at a specific point in time with respect to the boards' roles and responsibilities. Whilst useful in providing a snapshot view of governance areas that require improvement, it does not provide a roadmap for improvement.

In addition, due to the fact that board evaluations are facilitated by different service providers, with different methodologies and approaches to board evaluation, it is difficult to compare the board effectiveness levels of different boards.

A more recent trend to strengthen board evaluations is the development of board maturity/ progression models that provide an integrated framework for assessing a board's maturity levels, based on observed practices and to determine what a board needs to do to progress to the next stage.

## 7. THE NEED FOR A STRENGTHENED SOC BOARD EVALUATION FRAMEWORK

### 7.1. TOWARDS A STRENGTHENED SOC BOARD EVALUATION FRAMEWORK

Despite the well-established theoretical and legislative frameworks within which the role of SOC boards are understood, leadership and corporate governance challenges remain prevalent within most of the SOC's.

The PRC Report on State-Owned Entities<sup>25</sup> highlighted a number of challenges in SOEs, including:

- 1) **Dual mandate:** Balancing the trade-offs between commercial and non-commercial objectives are challenging.
- 2) **Governance and oversight:** Inadequate governance, ownership policy and oversight systems.
- 3) **Board and executive recruitment:** Quality of board and executive recruitment processes, and appointment of board members without the necessary competence and qualifications, leading to unintended consequences.

<sup>25</sup> The Presidency – Report of the Presidential Review Committee on State Owned Entities, 2013

- 4) **Insufficient division of power:** Lack of clarity on the role of the Executive Authority, boards, and the Chief Executive in the governance and operational management of SOEs.
- 5) **Remuneration frameworks:** Inconsistent remuneration frameworks and practices.
- 6) **Financial management:** Questionable financial management and sustainability of the SOCs resulting in an ever-increasing need for finance injections from government with a need for close re-examination of finance policies.
- 7) **Funding models:** Funding models for social and economic development mandates of SOCs are blurred, leading to undercapitalisation in some instances.
- 8) **Mixed service delivery performance:** Resulting in reduced customer satisfaction and legitimacy.
- 9) **Shareholder's compacts:** Not signed on time and make insufficient provision for objectives beyond the goal of profitability.
- 10) **Lack of SOE leadership:** Generally, SOEs tend to lack robust leadership and initiative on crucial transformation imperatives, such as broad-based black economic empowerment, the creation of meaningful employment opportunities and comprehensive skills development; and
- 11) **Poor oversight and collaboration:** Inadequate collaboration and coordination among SOEs, and their oversight is poor.

In the 2019/20 Public Enterprise Public Budget Vote speech<sup>26</sup>, the Minister stated that *"after a decade of mismanagement, negligent board and executive fiduciary accountability for poor performance, malfeasance that enable State capture, and rampant corruption at our SOCs, many are in deep financial difficulties"*.

A key and long-standing question in corporate governance has been around what effect boards of directors have on organisational performance. A recent global survey conducted by McKinsey suggest that boards with better dynamics and processes, as well as those that execute core activities more effectively, report stronger financial performance at the companies they serve<sup>27</sup>.

The three dimensions of operations critical to board effectiveness are the dynamics within the board, dynamics between the board and the executive team, and board processes. However, few boards are found to maintain good operations across all three dimensions; and effective processes are a particular pain point.

The evaluation of board effectiveness is, therefore, an important practice to ensure that boards are aware of the level of their effectiveness; and that boards have an opportunity to grow, develop and improve in order to have a more positive impact on the organisation they serve. Whilst board evaluation practices are increasingly adopted by boards, many still perform these evaluations from a mind-set of compliance.

For the SOCs specifically, a key challenge is that there is no standardised framework to define what board effectiveness is and to inform the SOC board evaluation practices, performance and processes, so that the boards and the shareholder derive increased value from the evaluation

<sup>26</sup> Minister Pravin Gordhan – Speech on Public Enterprise Budget Vote 2019/20, 11 July 2019

<sup>27</sup> McKinsey & Co. – A Time for Boards to Act, 2018



process.

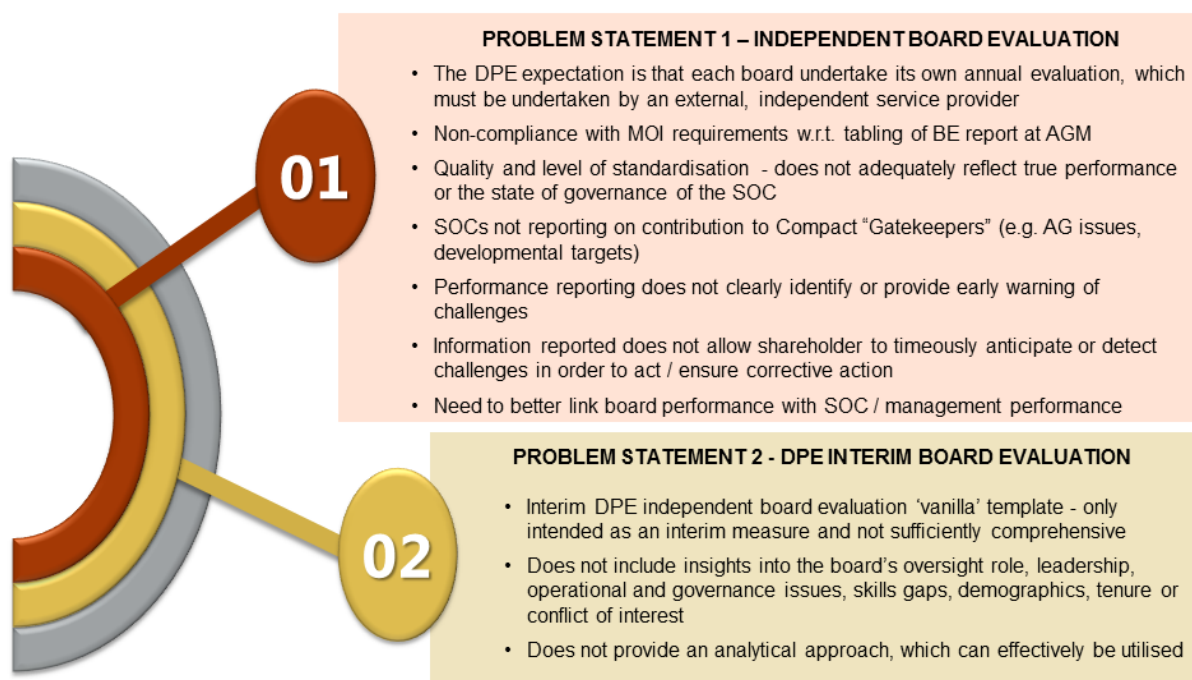
It is within this context that the DPE, in 2019, embarked on a process to:

- 1) Conduct a review on the current board evaluation methodologies and practices used by the Department and the boards of its SOCs, through documentary review and through engagements with the reference group (consisting of representatives from DPE and SOCs) established to lead the development of the Board Evaluation Framework.
- 2) Identify global best practice in relation to board evaluation, and conduct a comparative analysis of the current and best practices to identify potential shortcomings and gaps.
- 3) Develop an effective and strengthened Board Evaluation Framework to facilitate a shared understanding of board effectiveness, specify requirements for contracting of performance, standardise the approach to monitoring board performance and to track board development, and to provide guidelines, timelines and reporting requirements for board evaluations of SOCs; and
- 4) Develop a roadmap for the institutionalisation of the Board Evaluation Framework.

## 7.2. THE PROBLEM STATEMENT INFORMING THE BOARD EVALUATION

Arising from the initial documentary review and engagements with the Board Evaluation Framework reference group, the following problem statement was adopted, as defined and verified in the Gap Analysis Report<sup>28</sup>.

**Figure 5: Board Evaluation Problem Statement**



<sup>28</sup> Vortex Strategic Alignment: DPE Board Evaluation Gap Analysis Report – Towards a Strengthened SOC Board Performance Evaluation Framework, 6 December 2019

*Source: DPE Board Evaluation Gap Analysis Report, December 2019*

The problem statement is two-pronged, in that both the independent board evaluation and the interim board evaluation approach and process requires strengthening, through the development and implementation of a strengthened Board Evaluation Framework.

### **INDEPENDENT SOC BOARD EVALUATION:**

In terms of the Independent SOC Board Evaluation, the lack of a standardised board evaluation framework to guide board evaluation practices in SOC's is a key challenge<sup>29</sup>. In the absence of such a framework, there is no consistency in the processes and practices for board evaluation amongst the different SOC's, and it is almost impossible to compare the effectiveness of boards across the respective SOC's.

The biggest challenge for the shareholder is that board evaluation results are not aligned to, nor are they reflective of, the actual performance of the SOC's, even though the boards are responsible and fully accountable for the performance of the SOC's.

Most board evaluations in the SOC's are conducted as a compliance exercise, instead of with a focus on driving continuous improvement in board effectiveness towards enhanced organisational performance.

In addition, board evaluation results do not serve to provide the shareholder with sufficient warning to take corrective action in the advent of governance, leadership and other organisational challenges; and do not provide sufficient information to inform decision-making, such as the appointment of directors, rotation of directors, or approval of payment of short-term incentives.

Further, the board evaluation reports do not provide information about the board improvement plans, nor progress made against previous board improvement plans.

### **DPE INTERIM BOARD EVALUATION:**

The DPE Interim Board Evaluation is used on an ad-hoc basis when the shareholder does not have sufficient information to make informed decisions. The current interim evaluation, when implemented, takes the form of a short questionnaire that is distributed to board members.

Despite the fact that the legitimacy of some independent board evaluations is questionable, the interim board evaluation tool has not been often used. Where it has been applied in the past, the results of the evaluation have provided the Minister with limited information about actual board performance and effectiveness.

It is, therefore, important to use the opportunity to strengthen the interim board evaluation process and approach, to ensure that it provides the Minister with optimal value and information to inform decision-making.

The development of the SOC Board Evaluation Framework is therefore part of the larger SOC reform process taking place in the public sector. It is about improving the effectiveness of SOC boards and to support the ongoing journey of developing high-performing and high-impact boards - through strengthened governance and oversight of SOC performance.

<sup>29</sup> Department of Public Enterprises – Board Evaluation Reference Group Questionnaire, Inputs received September 2019



**NOTE:**

- 1) *The scope and nature of the leadership and governance challenges experienced at the SOC's are broad, complex and sensitive in nature.*

*The strengthened SOC Board Evaluation Framework is only part of the solution, and is only one component of a more holistic process to improve board governance and oversight.*

*It will lay the foundation for the progress of SOC boards on the journeys to becoming high-performing and impactful, provided that the outcomes of evaluations are taken seriously, and that the boards implement improvement plans with the right mind-set, motivation and intent.*

- 2) *The development and recommendations contained in the Board Evaluation Framework highlight the need to review other existing frameworks, guidelines and policies to ensure the successful implementation of the board evaluation framework, namely:*

- a) DPE SOC Logical Planning Framework should be reviewed to align to the results-based planning methodology and approach.*
- b) DPE Guideline for SOC Corporate Plan Content and Format should be reviewed to include strategic plan guidelines in alignment with public sector planning reforms.*
- c) National Treasury Draft Guidelines for Corporate Plans and Shareholder's Compact need to be reviewed to align with the Board Evaluation Framework.*
- d) The shareholder management framework instruments (e.g. MOI, SIS, Shareholder's Compact) should be reviewed, in parallel with the above reviews.*

Responding to the problem statement described above, Part B then presents the strengthened SOC Board Evaluation Framework, towards improved SOC board effectiveness.

## **PART B: THE SOC BOARD EVALUATION FRAMEWORK**

### **8. AIM OF THE BOARD EVALUATION FRAMEWORK**

The aim of the Department of Public Enterprise State-Owned Company Board Evaluation Framework (BE Framework) is to support the strengthening of the governance and oversight of state-owned companies, as part of the wider public sector reform of public entities.

The SOC Board Evaluation Framework is designed to improve the effectiveness of boards in the state-owned companies accountable to the Executive Authority (Minister of Public Enterprises), through the:

- 1) Establishment of a model of board effectiveness to inform a standardised approach to conducting board evaluations.
- 2) Specification of requirements for performance contracting between the Executive Authority and the board.
- 3) Standardisation of the approach to monitoring board performance and tracking progress in the maturity of boards.
- 4) Provision of guidelines, timelines and reporting requirements for board evaluations.

### **9. PURPOSE OF THE BOARD EVALUATION FRAMEWORK**

The purpose of the SOC Board Evaluation Framework is to:

- 1) Develop a Board Effectiveness Model that:
  - a) Is underpinned by the latest corporate governance guidelines and planning, monitoring and evaluation reforms taking place in the public sector;
  - b) Identifies the areas of board performance required for improved board effectiveness, towards the achievement of governance outcomes; and
  - c) Creates linkages between good governance and SOC value creation.
- 2) Strengthen and standardise the board evaluation process and provide guidance on the approach to the annual evaluation of board performance.
- 3) Identify challenges experienced by the boards in the governance and oversight of SOCs; and ensure that the board evaluation process provides an opportunity for board and director growth and development in this context.
- 4) Track the development of boards towards increased maturity and strategic impact, and to measure board effectiveness across SOCs.
- 5) Ensure that the board, as a whole, and individual directors, work efficiently and effectively in performing their duties, for the benefit of the SOC and its stakeholders.

- 6) Improve board effectiveness to ensure the board is able to provide effective leadership of:
  - a) SOC strategy and enabling policy, through the institutionalisation of the results-based planning methodology and approach, to ensure alignment with and contribution to the national priorities.
  - b) The oversight and monitoring of the achievement of SOC performance, ensure closer alignment between performance at all levels of the SOC, and monitor the right things to ensure the SOC is on track to realise its intended impact and outcomes; and
  - c) The governing structures and board performance enablers to ensure efficiency and effectiveness of board practices in the oversight and governance of the SOC.
- 7) Promote transparency and open communication on organisational and board effectiveness to enable informed decision-making by the shareholder and stakeholders.

## 10. SCOPE AND APPLICABILITY OF THE BOARD EVALUATION FRAMEWORK

The BE Framework shall apply to the state-owned companies in the DPE portfolio, namely Alexkor, Denel, Eskom, SAA, SA Express, SAFCOL and Transnet.

*While the BE Framework is developed for the DPE portfolio, it may in the future, as and if successfully piloted, be rolled out to all State and State-controlled entities listed in Schedule 2, 3B and 3D of the Public Finance Management Act.*

## 11. RESPONSIBILITY FOR IMPLEMENTATION OF THE BOARD EVALUATION FRAMEWORK

The responsibility for the implementation of the BE Framework rests with the Minister of Public Enterprises and the chairpersons of the SOC boards.

Board chairpersons are accountable for the annual evaluation of board effectiveness through the independent SOC board evaluation process and, in doing so, are supported by the board sub-committee responsible for board nominations and governance.

Additionally, the shareholder-driven board evaluation process is implemented, as and when required, by the shareholder minister, supported by the Department of Public Enterprises.

## 12. PRINCIPLES UNDERPINNING THE BOARD EVALUATION FRAMEWORK

To ensure the successful implementation and institutionalisation of the Board Evaluation Framework the following principles are adopted:

- 1) **Accountability:** Boards and individual directors are accountable for the impact of board effectiveness on organisational performance. Therefore, board effectiveness is essential at three levels:

- a) Leading SOC strategy and enabling policy and ensuring alignment and contribution to the national priorities through effective planning methodologies<sup>30</sup>;
  - b) Oversight and monitoring of SOC performance against its predetermined results-based plans – reflecting strategic focus, impact, outcomes, outputs and activities<sup>31</sup>;
  - c) Ethical leadership and board practices aligned to King IV.
- 2) **Correct mind-set:** Board evaluation must be embraced by the board and the directors with the correct mind-set, for its potential to improve board effectiveness and SOC governance - not merely for compliance. The board must act in the best interest of the organisation.
  - 3) **High-performance:** All directors must actively participate in the board evaluation process and take part in robust discussions to improve board and individual effectiveness, over time, towards high-performance. There is a high correlation between the effectiveness of the board and the performance achieved by a SOC.
  - 4) **Openness and transparency:** Directors should be open and honest in their individual evaluation of the effectiveness of the board as a whole and that of individual directors. Similarly, the board should be transparent in the disclosure of board evaluation results and improvement plans.
  - 5) **Growth and development:** Board evaluation and director development are ongoing processes and not an instance during the board term. Therefore, the process consists of both informal board discussions and reviews, and the steps in the formal cycle of review and assessment. Boards must seek to grow and develop towards improved efficiency and effectiveness, and to become more effective in their governance and oversight role.
  - 6) **Ownership:** Directors, individually and collectively, must take ownership and actively manage performance at board level. The SOC board (as a collective) and directors (individually) are required to be dynamic and decisive leaders, with the ability to steer the organisation towards sustainable shareholder value and long-term growth.

### 13. A MODEL FOR SOC BOARD EFFECTIVENESS

Corporate governance, as the cornerstone of board effectiveness, encompasses the processes by which organisations are directed, controlled and held to account. It includes the authority, accountability, leadership, direction and control exercised in an organisation. As corporate governance has evolved so have the SOC boards' responsibilities grown, beyond traditional oversight, to involvement in critical areas, such as strategy, risk, value creation and digitisation<sup>32</sup>.

To be effective, boards should consistently act to optimise and sustain the economic, social and environmental value and potential of the SOC they lead, according to a well-informed conscience, and with astute commercial judgement and a sound understanding of the organisation's

<sup>30</sup> Department of Planning, Monitoring and Evaluation – Medium-Term Strategic Framework 2019-2024

<sup>31</sup> Department of Planning, Monitoring and Evaluation – Revised Framework for Strategic Plans and Annual Performance Plans, December 2019

<sup>32</sup> McKinsey Inc. – A time for Boards to Act, 2018

business<sup>33</sup>. Therefore, good corporate governance is not an end in itself, but should be linked to SOC value creation. In the South African context, this requires a demonstrable contribution of the SOC to the achievement of national priorities, and the building of a financially viable and sustainable organisation.

According to King IV, the board's primary role and responsibilities are to steer and set strategic direction, approve policy and strategy, report and disclose, and oversee the implementation of strategy by management. Through ethical and effective leadership, this should lead to the achievement of the four governance outcomes, including good performance. The board is, therefore, overall responsible for the performance of the SOC and needs to account to the shareholder in this regard.

An SOC board cannot be appraised as effective if the organisation is not performing in terms of its approved strategy and is not creating public sector value. This requires the cooperation and support from all levels of the organisation. Particularly, this requires the creation of positive dynamics between the board and management, as the relationship has a direct impact on the effectiveness of the board in terms of enabling management to implement the approved strategy, whilst governing and overseeing the achievement of the strategy.

The Board Effectiveness Model for SOC, reflected in figure 6 below, incorporates good practice corporate governance guidelines; public sector planning, monitoring and evaluation reforms; evidence-based policy making; and public sector value creation. The Model is results/outcome-oriented and links good corporate governance with SOC performance and value creation.

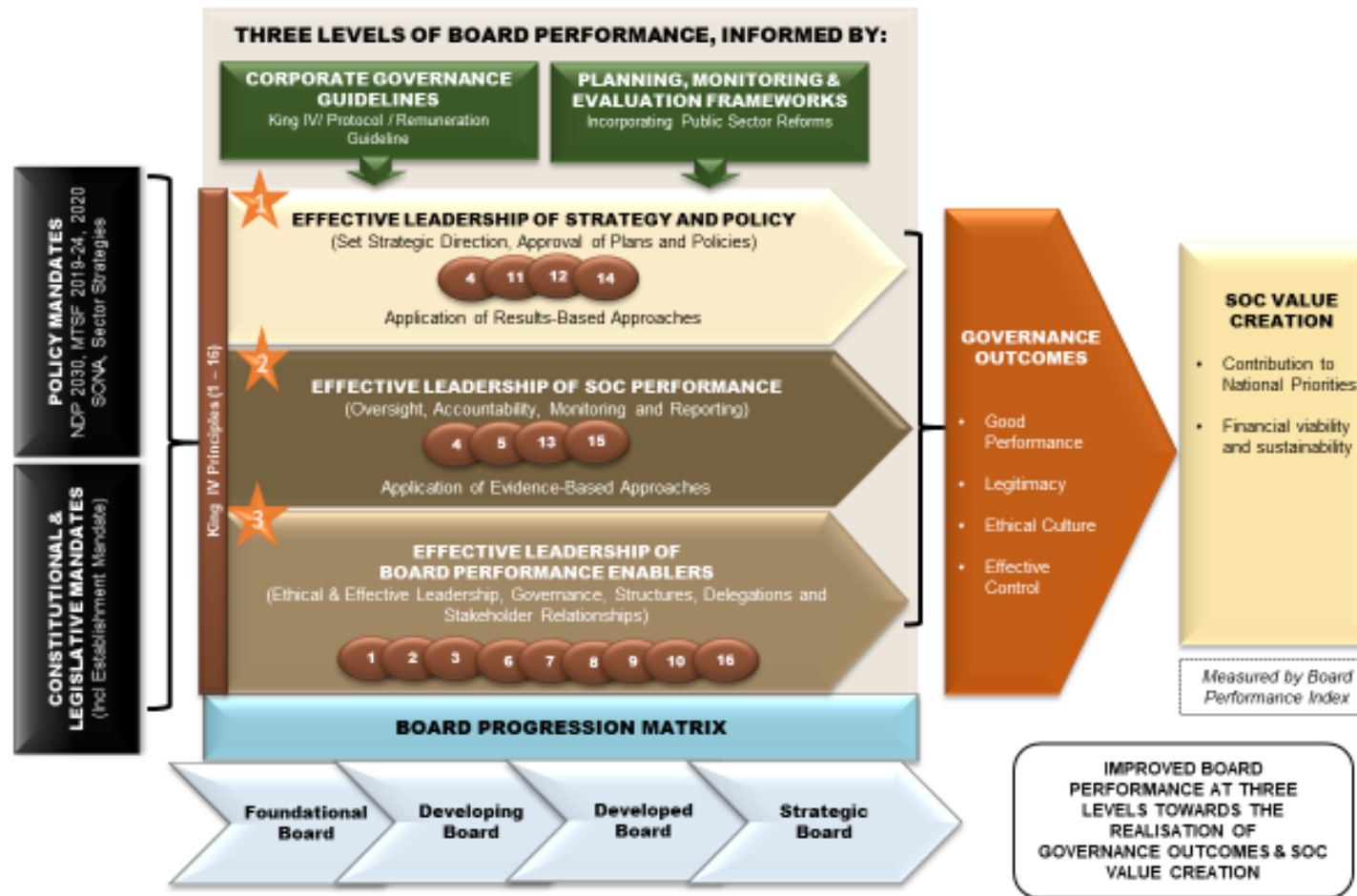
The Model provides the basis for developing a standardised approach to conducting board evaluations. It depicts the interaction and relationship between:

- 1) The legislative and policy mandates of the SOC.
- 2) Public sector corporate governance guidelines and protocols.
- 3) Board performance at three levels, underpinned by the 16 King IV principles, public sector planning, monitoring and evaluation reforms and a Board Progression Matrix.
- 4) The four governance outcomes; and
- 5) SOC value creation, which is measured by a Board Performance Index.

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<sup>33</sup> *Governance Today – Good Governance: What are the basic principles and why is it important -*  
[https://www.governancetoday.com/GT/Articles/Good\\_Governance\\_\\_what\\_are\\_the\\_basic\\_principles\\_and\\_why\\_is\\_it\\_important\\_.aspx?](https://www.governancetoday.com/GT/Articles/Good_Governance__what_are_the_basic_principles_and_why_is_it_important_.aspx?)

**Figure 6: The SOC Board Effectiveness Model**





## CONCEPTUAL OVERVIEW OF THE BOARD EFFECTIVENESS MODEL:

SOCs derive their mandate from the Constitution, and the relevant legislative and policy mandates. This would include, (1) static mandates, for example, the establishment, operating and governance legislation of the SOC, and (2) dynamic mandates, informed by the NDP, MTSF, spatial and sectoral priorities. Similarly, the role and responsibilities of SOC boards are informed by legislation, policy directives and corporate governance guidelines. Combined, the mandates contextualise the SOC boards' leadership, governance and oversight agenda.

The Board Effectiveness Model illustrates that in order to be effective in their leadership, governance and oversight roles, SOC boards are required to perform effectively at three levels. The three levels are aligned with the role and responsibilities of boards and the five performance areas defined by King IV.

By applying the recommended planning, monitoring and evaluation frameworks, and through the “apply and explain” approach to implementing the practices of the King IV principles that are applicable to each performance level, benefits should be realised in terms of the four King IV governance outcomes.

Performance at the three levels is influenced by the level of maturity and/or stage of growth and development of the Board, which is appraised in terms of a Board Progression Matrix (BPM). The desired end result of the Model is SOC value creation, which is measured by a customised Board Performance Index (BPI). The BPI is about high-performance and demonstrates the effect of improved governance outcomes on the achievement of intended outcomes (aligned to mandates and national priorities) and the financial viability and sustainability of the SOC.

## THREE LEVELS OF BOARD PERFORMANCE:

Informed by the latest corporate governance frameworks and guidelines, including King IV, the DPE Protocol on Corporate Governance in the Public Sector and the Remuneration Guidelines, as well as the latest public sector frameworks for developing short and medium-term plans based on results-based approaches<sup>34</sup>, the Board Effectiveness Model has been framed in terms of the effective performance of a SOC board at three levels, namely:

### 1) **Effective leadership of SOC strategy and policy:**

*The performance level aligns with two of the King IV roles and responsibilities of governing bodies – steering and setting strategic direction, and approving policy and plans to give effect to strategy.*

The board has an accountability to shape the *organisational strategic and policy framework* for the SOC in such a manner that it supports and enables the achievement of strategic priorities, in a well-governed and effective manner.

The Model puts forward a reformed approach to crafting strategy, one that links national priorities, shareholder expectations, and medium and short-term strategic and corporate plans through a results-based approach. The emphasis is on the achievement of results, or outcomes, over the medium to longer-term. The board must also ensure that the policies and functional plans needed to give effect to the strategy are developed by management and approved. This includes the governance function areas that support the achievement of the

<sup>34</sup> Department of Planning, Monitoring and Evaluation, Revised Framework for Strategic Plans and Annual Performance Plans, 2019

strategy.

The following King IV principles are applicable to this level of board performance and should form part of the board evaluation:

- a) Principle 4: Strategy and performance,
- b) Principle 11: Risk governance,
- c) Principle 12: Technology and information governance,
- d) Principle 14: Remuneration governance.

**2) Effective leadership of performance:**

*Performance level 2 is the flipside of performance level 1 and aligns with the other two King IV role and responsibilities of governing bodies – to oversee and monitor implementation and execution by management, and to ensure accountability.*

The board has an accountability to oversee, monitor and support management in the implementation and execution of the SOC strategy, policies and related plans. Effective oversight should realise improved organisational results. It requires diligence in monitoring and decisive actions to correct deviations to plan. Evidence-based, results-based and transparent reporting by management is critical to ensure the board has all the information available to make informed strategic decisions.

Effective compliance and assurance processes must be established to support the board in ensuring accountability for performance through reporting and disclosure to stakeholders.

The following King IV principles are applicable to this level of board performance and should form part of the board evaluation:

- a) Principle 4: Strategy and performance,
- b) Principle 5: Reporting,
- c) Principle 13: Compliance governance,
- d) Principle 15: Assurance.

**3) Effective leadership of governing structures and performance enablers:**

The 3<sup>rd</sup> performance level is largely the enabler of the first two levels. It entails ensuring that board structures, operations and processes are established, functional and efficient, and that sound governance and oversight practices, underpinned by the King IV principles, are adopted and effectively implemented. The performance level also relates to leadership of people, ethics and corporate citizenship, as well as the management of stakeholder relationships.

The following King IV principles are applicable to this level of board performance and should form part of the board evaluation:

- a) Principle 1: Leadership,
- b) Principle 2: Organisational ethics,



- c) Principle 3: Responsible corporate citizenship,
- d) Principle 6: Primary role and responsibilities of the governing body,
- e) Principle 7: Composition of the governing body,
- f) Principle 8: Committees of the governing body,
- g) Principle 9: Evaluations of the performance of the governing body,
- h) Principle 10: Appointment and delegation to management.

### ACHIEVEMENT OF GOVERNANCE OUTCOMES:

The next component of the Board Effectiveness Model is the achievement of the four King IV governance outcomes, namely:

1) **Good performance:**

In alignment with King IV advocating that organisations perform within the triple context of the economy, society and the environment, the mandate of a SOC outlines its envisaged contribution to economic, social, environmental and service delivery challenges. This requires the balancing of priorities by the board to ensure the achievement of both commercial and developmental results.

2) **Legitimacy:**

It is the perception that stakeholders have of the company that will make it legitimate, credible and relevant. The preservation and strengthening of stakeholder confidence are critical, as supportive stakeholders generate great benefits for the organisation through social and emotional support.

3) **Ethical culture:**

The board, through its own example of effective and ethical leadership, should be the cornerstone upon which any organisation culture is defined and conducted. SOCs, by virtue of their public interest mandates, are set up to be responsible corporate citizens as core to their purpose and needs to account to the citizens of SA, through the government, for the funding from tax contributions.

4) **Effective control:**

Boards govern and need to ensure the effective management of risks through an effective control environment.

The Model asserts that there is a direct correlation between the effectiveness of the board in leading the SOC at the three levels of board performance and the extent of achievement of the four governance outcomes. This is influenced by the level of maturity, or stage of development, of the board to perform effectively in terms of the 16 King IV principles, as gauged by a Board Progression Matrix (BPM).

### THE BOARD PROGRESSION MATRIX (BPM):

The Board Progression Matrix provides boards with guidelines for growth and development at

different stages of development towards increased maturity and effectiveness in the leadership, governance and oversight of SOC performance, aligned to the Board Effectiveness Model.

The growth and development of boards will be appraised and tracked in terms of a Board Progression Matrix, which reflects a two-dimensional, structured approach to describing the key characteristics of a SOC board for each defined performance area, at three different stages of maturity/development. The three stages of maturity are described as:

- 1) “Foundational Board”,
- 2) “Developing Board”, and
- 3) “Strategic Board”.

A foundational board typically operates from a compliance mentality. A developing board ensures compliance, whilst aiming to become more forward-looking in the leadership, governance and oversight of the SOC to ensure good performance. A strategic board is a strategic asset to the SOC through its leadership, governance and oversight.

The BPM is designed to guide boards on their developmental journey through the three stages of development/maturity. The Board Progression Matrix relevant to each performance level is depicted at the end of each of the performance levels discussed below (14.1, 14.2 and 14.3).

The Board Progression Matrix has been informed by a number of existing board maturity/progression matrixes, and has been tailored to align with the Board Effectiveness Model<sup>35</sup>  
36 37 38 39 40

## **SOC VALUE CREATION:**

The desired end result of the Model is SOC value creation, which has been defined as the extent to which the board, through the achievement of the four governance outcomes, has led the SOC to achieve its outcomes (aligned to mandates and national priorities) and the creation (building) of a financially viable and sustainable organisation. SOC value creation is measured by a customised Board Performance Index (BPI).

### **13.1. BOARD PERFORMANCE INDEX (BPI)**

The Board Performance Index (BPI) and tool serve to provide a consolidated measure (index) of the end-result of the Board Effectiveness Model. The BPI illustrates the effect that the extent of achievement of governance outcomes, through the three levels of board performance, has on SOC value creation. The BPI quantifies board effectiveness, and seeks to monitor and track board effectiveness across the respective SOC.

The BPI may be tracked over time through a year-on-year comparison to reflect whether the

<sup>35</sup> International Finance Corporation – Corporate Governance Progression Matrix for SOEs, 2019

<sup>36</sup> Health Quality Improved Partnerships – Good Governance Handbook, 2015

<sup>37</sup> University of Pretoria (Department of Auditing) – A Framework for the Development of an Organisational Governance Maturity Model – A Tool for Internal Auditors, 2012

<sup>38</sup> World Bank Group - Corporate Governance of State-Owned Enterprises – A Toolkit, 2014

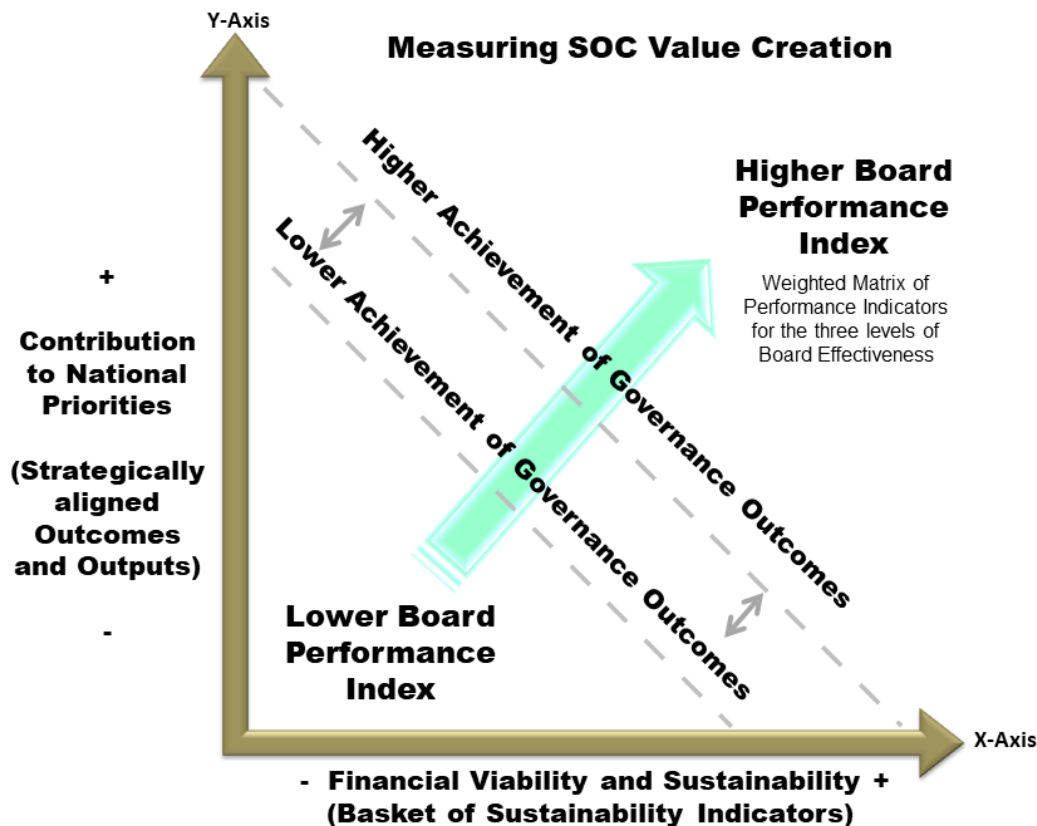
<sup>39</sup> Deloitte – Governance Framework and Maturity Model, 2012

<sup>40</sup> Effective Governance – Transforming Board Evaluations – The Board Maturity Model, 2011

effectiveness of the board at the three performance levels is improving or regressing in terms of SOC value creation.

Early conceptualisation of the Board Performance Index is reflected in the figure below and will be fully developed during the implementation phase of this project.

**Figure 7: Conceptual model for the development of the SOC Board Performance Index**



Source: Adapted from the Accenture Public Service Value Model

Adapted from the Accenture Public Service Value Model<sup>41</sup>, the Board Performance Index reflects how the three levels of the Board Effectiveness Framework combine to achieve a higher or lower Board Performance Index (BPI):

- 1) The Y-axis reflects performance in terms of the SOC's contribution to applicable MTSF priorities, based on the intended impact and outcomes outlined in the shareholder compact, as informed by the SOC strategic intent statement. A higher contribution moves performance up the Y-axis.
- 2) The X-axis reflects achievement of SOC performance against a set of performance indicators, with particular emphasis on the financial viability and sustainability of SOC's, in the organisational performance scorecard. A higher achievement moves performance to the right of the X-axis.
- 3) The extent of achievement of sound governance outcomes either constrains or enables

<sup>41</sup> Accenture Consulting (Book Authored by Accenture Executives) - *Unlocking Public Value: A New Model for Achieving High-performance in Public Service Organizations*, 2006

organisational performance in terms of the SOC's contribution to national outcomes, and future financial sustainability.

The higher the achievement of board effectiveness, the higher the BPI, and vice versa. This constraining/enabling line of governance, therefore, determines the potential performance of the organisation in terms of improved outcomes in contributing to the MTSF, and to strengthening organisational performance and financial sustainability.

In order to ensure standardisation across the three levels of board effectiveness, the development of the Board Performance Index shall include a dictionary of standardised indicators for measurement and tracking of board performance. There may then be a need to communicate further minimum reporting requirements for the independent board evaluation.

### **13.2. BOARD EVALUATION**

The board evaluation for SOC's is informed by the Board Effectiveness Model described above.

Similar to other good practice performance management systems that focus on both quantifiable performance measures and people growth and development measures, the board evaluation will evaluate performance in terms of the three performance levels, the four governance outcomes and its effect on SOC value creation, while also appraising the board growth and development trajectory in terms of the 16 King IV principles.

Informed by relevant corporate governance frameworks and guidelines, most notably King IV, and applicable public sector planning, monitoring and evaluation frameworks and guidelines, the next section specifies the requirements for boards to be effective at the three levels of board performance.

## 14. REQUIREMENTS AT THE THREE LEVELS OF BOARD PERFORMANCE

***High-performance in an SOC is defined as the ability to deliver — over a prolonged period — meaningful, measurable and financially sustainable results and impact for the people and its stakeholders<sup>42</sup>.***

In terms of King IV, all boards should drive improved performance in strategic leadership, governance and oversight, to achieve the governance outcomes. Understanding the relationship between best practice, principles and governance outcomes is key to mindful application<sup>43</sup>.

This section describes what the board of a SOC needs to ensure is in place within the SOC, relating to the people, systems, processes, information management and relationships. The requirements, which should be read in conjunction with the King IV practices, are the prerequisites for a successful board evaluation.

### 14.1. EFFECTIVE LEADERSHIP OF STRATEGY AND POLICY

In line with the Board Effectiveness Model (figure 6 above), the first level of board performance is the board's visionary leadership and guidance of management in the development of the long and medium-term strategic priorities and outcomes. Through its leadership in strategic planning, it sets the scene for the achievement of the SOC vision in the context of the external environment, in the best interest of stakeholders, whilst carefully balancing the available resources, risks and organisational infrastructure and systems to achieve the commercial and transformational priorities of the SOC.

SOC policies serve as the voice of the board and, therefore, there is a responsibility on the board to thoughtfully deliberate issues and policy proposals before finally approving the policies. Whilst management is accountable for the development and recommendation, and implementation, of policies, the board needs to be alert to the need for a new or changed policy in the SOC.

**Principle 4 of King IV** requires the board to appreciate that the SOC's core purpose, risks and opportunities, strategy, business model, performance and sustainable development are inseparable elements of the value creation process. The board is required to:

- 1) Influence and set the direction for the realisation of the SOC's core purpose and values through its strategy.
- 2) Delegate to management the formulation and development of short, medium and long-term strategies, and approve it.
- 3) Approve the policies and operational plans developed by management to give effect to the approved strategy.

Strategic alignment, performance contracting, and planning requirements and frameworks based on lessons learnt and public sector planning reforms are outlined below.

<sup>42</sup> *The Performance Imperative: A Framework for Social-Sector excellence, developed collaboratively by the Leap of Reason Ambassadors Community, licensed under CC BY ND <https://creativecommons.org/licenses/by-nd/4.0/>*

<sup>43</sup> *Institute of Directors – Corporate Governance Guideline in SA - King IV (2016)*

#### 14.1.1. STRENGTHENED PERFORMANCE CONTRACTING AND PLANNING PROCESS

The effectiveness of the shareholder's compact, as a performance contracting tool, is dependent on the quality of the strategic planning process that informs it. The development of this BE Framework has highlighted the need to review the current SOC planning frameworks in line with recent public sector planning reforms.

While it is not a requirement for PFMA Schedule 2 listed state-owned entities to comply with the Revised Framework for Strategic Plans and Annual Performance Plans (DPME, 2019)<sup>44</sup>, it is a strong recommendation of this Board Evaluation Framework that key good practice methodologies are adopted, particularly the results-based approach<sup>45</sup>, which will support:

- 1) Effective cascading of performance information through the various levels of SOC planning.
- 2) Alignment of planning with the five-year MTSF planning cycles and medium to longer-term priorities of government.
- 3) An enhanced shareholder's compacting process and content that is aligned to the Board Evaluation Framework; and
- 4) Strengthened feedback and oversight mechanisms, feeding into evidence-based policy and decision-making.

#### RESULTS-BASED AND BALANCED STRATEGY APPROACH:

The PFMA, Treasury Regulations and the SOC Guideline for Corporate Planning and Shareholder's Compact has shaped the SOC planning framework. However, since 2002 (when the guideline was released) the Government-wide Planning, Monitoring and Evaluation Framework has evolved significantly. The focus has turned to a results-based approach and "theory of change" logic model<sup>46</sup>, which defines the hierarchy of performance information at the various levels of planning, with an emphasis on aligning institutional plans with the priorities of government.

With government being a sole shareholder of the SOC, the organisations are uniquely positioned to achieve both commercial and transformational outcomes for the public good, or public sector value creation. It is, therefore, important that each SOC works towards the realisation of national priorities, while ensuring a financially viable and sustainable organisation, i.e. SOC value creation.

As the implementation of NDP and aligned five-year MTSF national priorities are dependent on the alignment and coordination of planning across all spheres of government and the private sector, it is recommended that the SOC adopt the results-based approach in conjunction with a balanced strategy logic approach.

The results-based (RB) approach to strategic planning and management<sup>47</sup>, reflected in the figure below, has been widely adopted by the public sector. It is an approach whereby all stakeholders, contributing directly or indirectly to achieving a set of results, ensure that the processes, products

<sup>44</sup> Department of Planning, Monitoring and Evaluation – Revised Framework for Strategic Plans and Annual Performance Plans, December 2019

<sup>45</sup> National Treasury - Framework for Managing Programme Performance Information, 2007

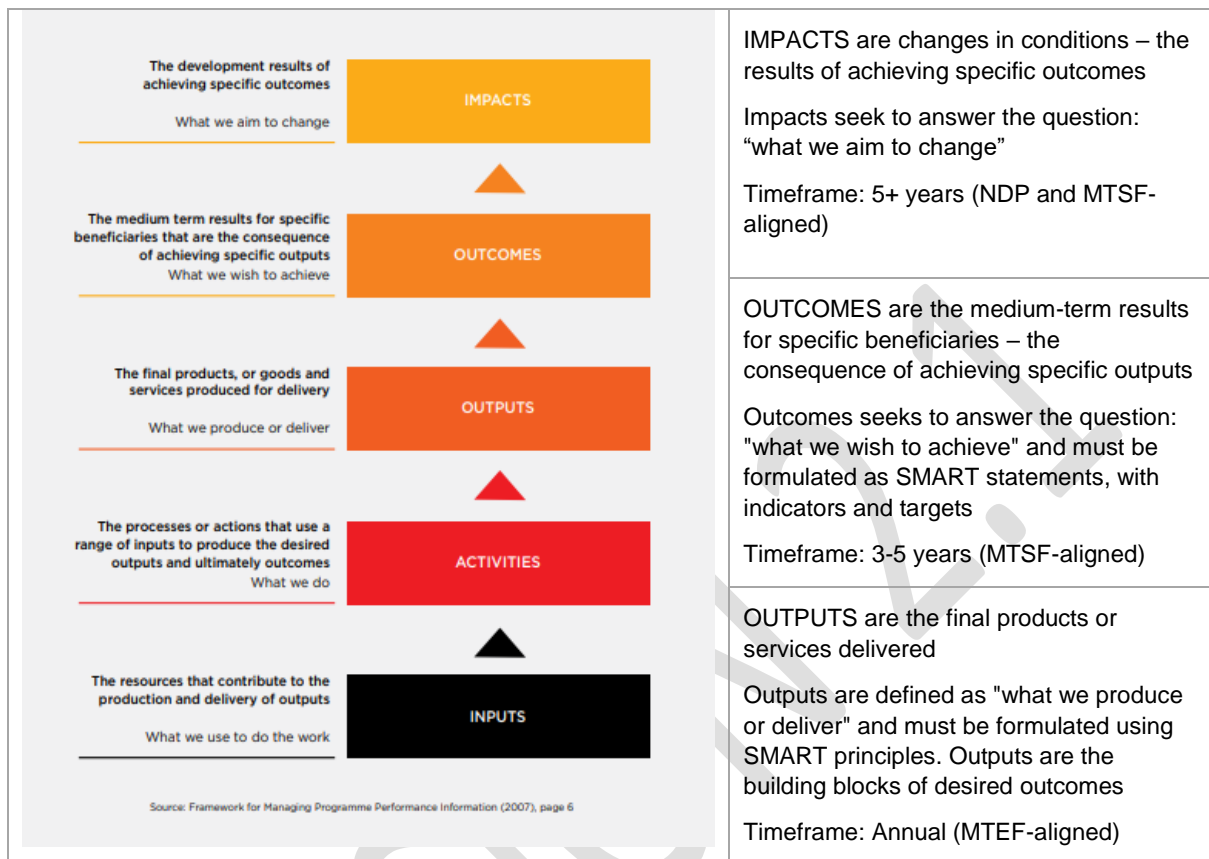
<sup>46</sup> National Treasury - Framework for Managing Programme Performance Information, 2007

<sup>47</sup> Department of Planning, Monitoring and Evaluation – Revised Framework for Strategic Plans and Annual Performance Plans, December 2019



and services contribute to the achievement of desired results (*outputs* ⇒ *outcomes* ⇒ *impact*).

**Figure 8: Results-based approach to planning**



Source: DPME – Revised Framework for Strategic Plans and Annual Performance Plans, 2019

The indicators selected should comprise a combination of standardised and customised indicators. Standardised indicators are applicable for all SOC, across all sectors and industries, e.g. financial sustainability and return on investment; and customised indicators are the sector-specific indicators and aligned with the service delivery mandate of the SOC.

#### IMPACT AND OUTCOME INDICATORS:

*Impact and outcomes are generally only realised over the medium to long-term. As the shareholder compact is developed on an annual basis, board performance targets at the impact and outcome levels should reflect the improvement trajectory against predetermined milestones, towards the achievement of such longer-term impacts and outcomes.*

In addition, the balanced strategy logic approach is based on the organisation's ability to identify and align the external and internal areas of focus, in a balanced way, to be successful and sustainable:

- 1) **External areas of focus**, centres around excellence in the delivery of services; customer focus; the need to generate revenue while managing costs; efficient and effective use of income received, creating value and favourable returns on investment for shareholders; building credibility and legitimacy through stakeholder inclusivity and sound corporate

governance; and to be recognised for legislative and regulatory compliance in the way of doing business; and

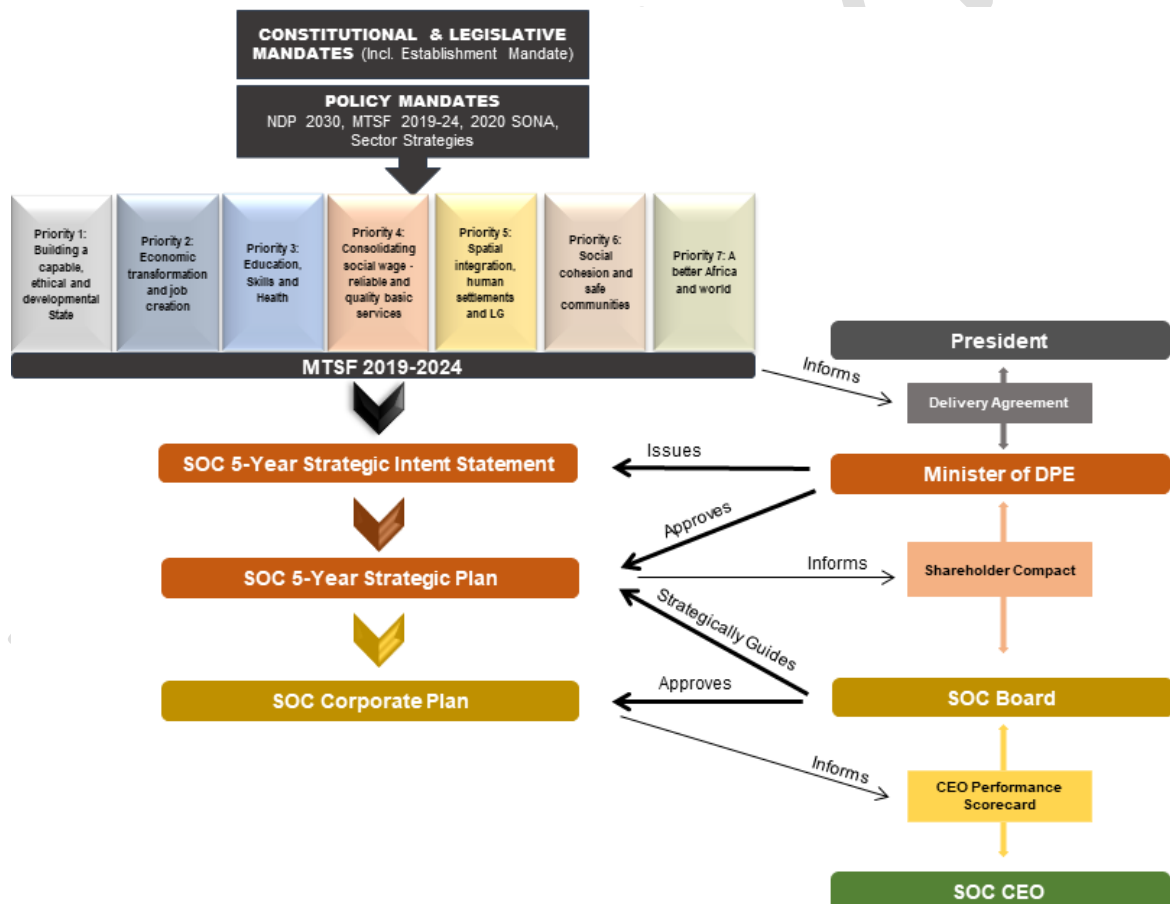
- 2) **Internal areas of focus**, centres around the ability to excel in outcomes-directed business processes, continual learning and improvement; harnessing technology and innovation; investing in people and driving a high-performance culture.

This enhanced planning approach then translates into the strategic alignment and performance contracting process.

#### 14.1.2. ALIGNMENT OF SOC STRATEGY AND PERFORMANCE CONTRACTING

The figure below reflects the alignment between the recommended SOC strategic planning process and the performance planning and contracting at the Executive Authority, Accounting Authority and the Accounting Officer levels.

**Figure 9: Alignment between SOC strategic and performance planning**



**NOTE:** The above figure reflects the priorities of MTSF 2019-2024, which may change in subsequent MTSF planning cycles

The SOCs are legal entities and have legislative and policy mandates. The legislative mandates of the SOCs are static in nature, with the Constitution of the Republic of South Africa at the apex. The policy mandates of the SOCs are typically informed by the national and sector policy directives with the National Development Plan 2030 at the apex.

In 2012, South Africa adopted the National Development Plan, Vision 2030 (NDP). The NDP sets out the vision for the country and provides a long-term perspective for achieving the vision through changes in the socio-economic structure and in the culture of society, which are the result of the country's history of oppression, exploitation and dispossession<sup>48</sup>.

In turn, the Medium-Term Strategic Framework (MTSF) is government's rolling five-year strategic plan for a specific electoral term. It is informed by the electoral mandate of the governing party and sets out interventions to achieve the National Development Plan, Vision 2030, goals.

Achieving the MTSF priorities requires cooperation between national, provincial and local government, and with the private sector and civil society. Ideally, these parties must work collaboratively to align their powers and functions, and their planning and budget allocation processes. Through the development and implementation of legislation, policies and programmes, planning is critical to the implementation of the MTSF.

The current Medium-Term Strategic Framework is for the 2019–2024 electoral cycle (MTSF 2019-2024)<sup>49</sup>. Whilst it is understood that this Board Evaluation Framework will extend beyond the current cycle, it is important that all SOCs consider how to contribute towards the realisation of the defined national priorities for this electoral term.

MTSF 2019-2024 aims to address the challenges of unemployment, inequality and poverty through three pillars:

Pillar 1: Achieving a more capable State.

Pillar 2: Driving a strong and inclusive economy.

Pillar 3: Building and strengthening the capabilities of South Africans.

The three pillars then underpin the seven priorities of the MTSF 2019-2024<sup>50</sup>:

Priority 1: A capable, ethical and developmental State.

Priority 2: Economic transformation and job creation.

Priority 3: Education, skills and health.

Priority 4: Consolidating the social wage through reliable and quality basic services.

Priority 5: Spatial integration, human settlements and local government.

Priority 6: Social cohesion and safe communities.

Priority 7: A better Africa and World.

Important to note, and relevant to this Board Evaluation Framework, is the fact that “building a capable, ethical and developmental State” is positioned as the first priority for the five-year period to 2024/25. The MTSF also outlines the specific interventions and indicators for which certain SOCs are directly accountable in terms of their core business mandate.

<sup>48</sup> The Presidency: National Planning Commission - National Development Plan, Vision 2030 - Our future-make it work, 2012

<sup>49</sup> Department of Planning, Monitoring and Evaluation – Medium-Term Strategic Framework 2019-2024

<sup>50</sup> Department of Planning, Monitoring and Evaluation – Medium-Term Strategic Framework 2019-2024

***As a guideline, Annexure A presents a matrix of the respective SOC's contribution to the realisation of the seven national priorities, through the MTSF 2019-2024.***

## **STRATEGIC INTENT STATEMENT (SIS) AND FIVE-YEAR (MTSF-ALIGNED) STRATEGIC PLAN:**

The SOC strategic planning process commences with the Minister, as Executive Authority of the SOC, issuing the board of the SOC with a strategic intent statement (SIS) at the beginning of a new electoral term, which outlines the constitutional and legislative mandates of the SOC, and the policy mandates that are applicable to the SOC.

The policy mandates are informed by the NDP and MTSF (currently 2019-2024), and needs to reflect the strategic interventions and MTSF targets that the SOC is either accountable for as the lead delivery agent, or needs to contribute to.

Informed by the delivery agreement between the President and the Minister, the SIS must provide the board with a set of strategic directives that are outcome-oriented and SMART, and include targets to be achieved over the MTSF-aligned five-year planning period. As the policy mandates of the SOC should remain constant for the MTSF-aligned five-year planning period, there should not be a need to revise the SIS on an annual basis.

However, it remains the prerogative of the Minister to issue a revised SIS should the expectations of the shareholder change and require a revision to the strategic objectives of the SOC. The SIS informs the development of the five-year strategic plan, which is led by the board and recommended to the Minister for approval.

The SOC five-year strategic plan must then respond to the SIS using a results-based approach, and must define the intended impact and strategic outcomes to be achieved by the SOC over the MTSF-aligned planning period.

## **SHAREHOLDER'S COMPACT AND CORPORATE PLAN:**

The shareholder's compact serves as the "performance agreement" between the Executive Authority and the board, and is informed by the delivery agreement between the President and the Minister, the SIS, and the SOC strategic plan. In turn, the strategic plan and the shareholder's compact inform the development of the annual corporate plan, which reflects the outputs (products and services/deliverables) that give effect to the outcomes of the strategic plan.

The SOC corporate plan is approved by the SOC board and submitted to the Minister. Once the corporate plan is approved, together with the shareholder's compact, it shall inform the CEO's performance agreement with the board.

## **SOC POLICIES:**

SOC policies serve as the voice of the board and, therefore, there is a responsibility on the board to thoughtfully deliberate issues and policy proposals before finally approving the policies. Whilst management is accountable for the development and recommendation of policies, the board needs to be alert to the need for new or changed policy in the SOC.

The King IV governance functional areas supporting the board to effectively lead the strategy and policy performance area are briefly discussed below. Again, the detailed recommended practices are outlined in the King IV Code.

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### 14.1.3. RISK GOVERNANCE

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An effective board understands and appropriately governs and monitors the *company's strategic, operational, financial and compliance risk exposures*, and collaborates with management in setting risk appetite, tolerances and alignment with strategic priorities.

**Principle 11 of King IV** makes the board accountable to govern risk in a way that supports the organisation in setting and achieving its strategic objectives. Through the assessment of risk, key opportunities should be considered by companies and their governance oversight structures. Internal audit should audit and express an opinion over the risk and opportunity management function and process.

King IV emphasises the importance of risk management to assist the company in considering the interdependencies of risk. The board should consider what constitutes excessive risk-taking and set the level of risk appetite and tolerance.

The board and associated committee(s) should have the appropriate level of oversight and approval. King IV recommends that there should be overlap in membership between the Audit and Risk Committee, and that the Risk Committee should constitute at least three directors, with the majority being non-executives.

Ultimately risk and opportunity governance rests with the board, whilst the implementation of the risk policy is delegated to management. The board should oversee the adequacy and effectiveness of risk and opportunity management, and this should focus on the organisation's resilience to withstand vulnerabilities, including recovery plans.

The level of disclosure regarding the effectiveness of the risk and opportunity management process has increased. King IV calls for organisations to disclose the processes for managing risk and opportunity, key focus areas, mechanisms for monitoring the effectiveness of risk, opportunity management and how uncertainties have affected performance and future strategies.

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### 14.1.4. PEOPLE GOVERNANCE

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An effective board attracts, supports, develops and rewards the CEO in order to achieve the strategic objectives. It is responsible to oversee the talent / people programmes of the SOC, especially the programmes aimed at the development and succession planning of executive leadership and potential successors to the CEO.

**In Principle 14 of King IV**, the board is tasked with ensuring that the SOC *remunerates fairly, responsibly and transparently*, so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.

In line with international developments, remuneration receives far greater prominence in King IV. It is clear that the responsibility for fair and equitable remuneration rests with the board. In SOCs, the shareholder approves executive remuneration and in addition, the DPE Remuneration and Incentive Guidelines place specific responsibilities regarding remuneration, incentives and disclosure practices on the boards of SOCs.

While King III required a company to have an approved remuneration policy that is voted on by shareholders in the form of a non-binding advisory vote, King IV takes this further by stipulating the

minimum requirements of the remuneration policy. The Code now requires the board to oversee the implementation of a policy that results in:

- 1) Attracting, motivating, rewarding and retaining talent,
- 2) Linking variable remuneration with both organisational and individual employee performance, and
- 3) Measuring variable remuneration in relation to sustainable value created across the whole of the economic, social and environmental context, and in accordance with enhancement or diminishment across the capitals that the company uses or affects.

The board should also review fair and responsible executive remuneration practices in the context of overall employee remuneration.

King IV recommends that, for the purpose of evaluating and approving the remuneration policy, the board oversees ongoing dialogue with the shareholder, based on the mutual understanding of what performance and value creation constitutes. The board will be required to appropriately articulate the link between strategy, sustainable value creation, performance and remuneration.

King IV requires a three-part disclosure relating to remuneration, including the remuneration background statement, policy and implementation.

In addition, the Remuneration Guideline<sup>51</sup>, which is aligned to King IV, provides additional requirements for the SOC boards to track SOC performance against the remuneration gatekeepers and reporting of remuneration.

The relevant board committee will have to take cognisance of the above, as this will inform the effectiveness of the committee as a whole and will be considered in the performance evaluation of the individual committee members. The mandate of the committee has moved beyond the design of executive remuneration packages, and now includes the justification of the link between remuneration, value creation and performance within the social, economic and environmental context. The relevant board committee will have to assist the board with the dialogue with the shareholder, to ensure comfort with the correlation between directors' effectiveness, their individual and collective contribution to value creation, and associated remuneration.

#### 14.1.5. INFORMATION AND TECHNOLOGY

**Principle 12 of King IV** requires the board to govern *technology and information* in a way that supports the organisation in setting and achieving its strategic objectives.

In light of the prevalence of the Fourth Industrial Revolution, King IV takes this theme further and recognises information separate from technology, as a corporate asset that is part of the company's stock of intellectual capital, and confirms the need for governance structures to protect and enhance this asset.

Technology is described as a way in which to access, protect and manage information, but it is also much more than an information management system - the disruptive nature of technology on

<sup>51</sup> Department of Public Enterprises – *The Guide for State-Owned Companies – Remuneration and Incentives for Executive Directors, Prescribed Officers and Non-Executive Directors, 2018*



long-term business models is recognised, and the significant risk this poses to companies is highlighted.

The board is specifically tasked with approving and overseeing the technology and information policy of the company. The overseeing of these policies should be in relation to:

- 1) Compliance with relevant laws.
- 2) Assessing return on investment in technology.
- 3) Risk oversight of outsourced technology services.
- 4) Providing for business resilience, continuity and disaster recovery.
- 5) Information security and protection against cyber-crime.
- 6) Records management.
- 7) Information privacy.
- 8) Data quality.

In terms of King IV, the board is required to periodically carry out a formal review of the adequacy and effectiveness of the organisation's technology and information function. Although the assessment of the technology function is reasonably common practice, the formal assessment of the information function is still less common. It is critical that this process is carefully considered, and that the nature of this assessment is carefully planned.

The assessment should extend beyond an assessment of the control environment and include a view on the effectiveness of the information strategy of the organisation.

Further, the Code requires disclosure on the structures and processes for information and technology, the key focus areas, the mechanisms for monitoring technology and information management, as well as give an indication of how the organisation's current and future objectives are affected by digital development.

The Board Progression Matrix, reflected below, then provides a guideline for SOC boards to determine their current level of development against each of the key focus areas associated with the first level of board performance – *Effective Leadership of Strategy and Policy*, and how to improve towards the next level of maturity/development.

**Figure 10: Board Progression Matrix for “Effective Leadership of Strategy and Policy”**

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
<b>Effective Leadership of Strategy and Policy</b>			
<b>Strategic Plan</b>	<ul style="list-style-type: none"> <li>The board is charged with objectively overseeing management, and formally reviews and approves the strategy.</li> <li>Approves SOC policy Framework.</li> </ul>	<ul style="list-style-type: none"> <li>The board sets and approves strategy independent from the State, who only set broad mandate and objectives.</li> <li>Board recommends.</li> </ul>	<ul style="list-style-type: none"> <li>Board work plan provides for at least 30% focus on strategic matters.</li> <li>Board thoroughly understands the business and its drivers and has relevant, experience in the industry, adjacent industries/markets and competitors.</li> <li>The board strategically leads the development of SOC strategy in line with the results-based planning, and the balanced logic approach to planning.</li> </ul>
<b>Policy Framework</b>	<ul style="list-style-type: none"> <li>Approves the policy framework, as developed by management.</li> </ul>	<ul style="list-style-type: none"> <li>Extensively engages, advises and guides management in the development of the strategic plan that aligns with the mandate of the SOC. The work plan provides specific time for strategic conversations.</li> </ul>	<ul style="list-style-type: none"> <li>Policy framework approved.</li> <li>Regular oversight to ensure that the policy framework enables the strategic intent of the SOC.</li> </ul>
<b>Commercial and Policy Objectives</b>	<ul style="list-style-type: none"> <li>The SOC has clearly identified and differentiated between its commercial and policy objectives.</li> </ul>	<ul style="list-style-type: none"> <li>Provides strategic leadership in the development and implementation of policies where the board has heightened governance accountability.</li> <li>SOC commercial and policy objectives are explicit.</li> </ul>	<ul style="list-style-type: none"> <li>Costs of meeting any policy objectives are funded separately by the State.</li> <li>The SOC conducts operations and engages in business, the same as private sector companies, and freely submits to international arbitration and foreign law/jurisdiction in the context of international finance.</li> </ul>

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
		<ul style="list-style-type: none"> <li>Funding costs and sources, including any form of financial assistance from the State are transparent and disclosed to the public.</li> </ul>	
<b>Risk Governance</b>	<ul style="list-style-type: none"> <li>The board receives and reviews information on key risks.</li> <li>The board is trained on E&amp;S risk issues.</li> </ul>	<ul style="list-style-type: none"> <li>Understands and appropriately monitors the company's strategic, operational, financial and compliance risk exposures.</li> <li>Collaborates with management in setting risk appetite, tolerances and alignment with strategic priorities (integrating E&amp;S risks).</li> <li>Establishes risk management framework with a chief risk officer (CRO) or equivalent, with unfettered access to the board and who ensures management systems are in place to identify and mitigate risks.</li> </ul>	<ul style="list-style-type: none"> <li>Board accepts responsibility for risk oversight regardless of processes delegated to various board committee(s).</li> <li>Board sets expectations for risk management, including the ability of the CRO to communicate directly to the board/board committees.</li> <li>The CRO reports to board-level Risk Management Committee or equivalent.</li> <li>Board adequately challenges management assumptions and oversees adequacy and transparency of disclosures and other communications to stakeholders about risk management.</li> <li>ESG issues are recurring board agenda items; board approves ESG strategy and E&amp;S policies routinely and ensures effectiveness of External Communications Mechanism (ECM).</li> <li>Board reviews independent audits on effectiveness of Environment and Social Management System (ESMS), including the stakeholder engagement processes and grievance mechanisms.</li> </ul>

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
<b>People Governance</b>	<ul style="list-style-type: none"> <li>Approves remuneration policy that gives effect to fair, responsible and transparent remuneration.</li> <li>Short-term incentive gatekeepers not monitored.</li> </ul>	<ul style="list-style-type: none"> <li>Remuneration policy and practice aligns with and complies with the SOC remuneration guidelines.</li> <li>Short-term incentive gatekeepers are monitored and reported on, and incentive pay-outs aligned with requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Oversee remuneration policy achieves objectives of policy and drives high-performance.</li> <li>Disclosure regarding remuneration in line with legal and remuneration guideline requirements.</li> </ul>
	<ul style="list-style-type: none"> <li>Informal CEO evaluation occurs annually – no mid-term or periodic reviews.</li> </ul>	<ul style="list-style-type: none"> <li>Recommendations regarding selection, appointment and dismissal of the CEO and other members of senior management provided by Nominations Committee.</li> <li>Annual formal assessment of CEO occurs with the chairperson of the board.</li> <li>Periodic informal performance discussions take place.</li> <li>Board oversees the CEOs development, goal setting and remuneration.</li> </ul>	<ul style="list-style-type: none"> <li>The board is responsible for the selection, appointment and dismissal of the CEO and other members of senior management.</li> <li>The board has established a performance-linked executive compensation system aligned with the SOC's objectives.</li> <li>The board, or its specialised committee, formally evaluates the performance of the CEO and other C-Suite executives against key performance indicators (KPIs) aligned with objectives.</li> <li>Oversight of executive management succession plans.</li> <li>Transparent disclosure of performance and compensation of CEO to stakeholders.</li> </ul>

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
<b>Information and Technology Governance</b>	<ul style="list-style-type: none"> <li>Approves enabling data governance and information management governance and policy frameworks.</li> </ul>	<ul style="list-style-type: none"> <li>Assume responsibility for information and technology through setting strategic direction as to how it should be approached.</li> <li>Ongoing oversight of the management of technology and information.</li> </ul>	<ul style="list-style-type: none"> <li>Receives periodic independent assurance on the effectiveness of SOC technology and information and discloses data governance outcomes.</li> <li>Ensures SOC leverage information to enhance intellectual capital; protects information through robust information architecture, protects and keeps confidential personal information (with no breaches/leakages).</li> <li>Ensures technology architecture that enables achievement of strategy and safeguards data.</li> </ul>

## 14.2. EFFECTIVE LEADERSHIP OF SOC PERFORMANCE

The second level of board performance in the Board Effectiveness Model (figure 6 above) relates to the board's effective leadership and oversight of organisational performance, to ensure the achievement of the intended impact and outcomes of the MTSF-aligned five-year strategic plan of the SOC.

### 14.2.1. PERFORMANCE AND FINANCIAL MONITORING

**Principle 4 of King IV** requires the board to appreciate that the SOC's core purpose, risks and opportunities, strategy, business model, performance and sustainable development are inseparable elements of the value creation process. The board is required to:

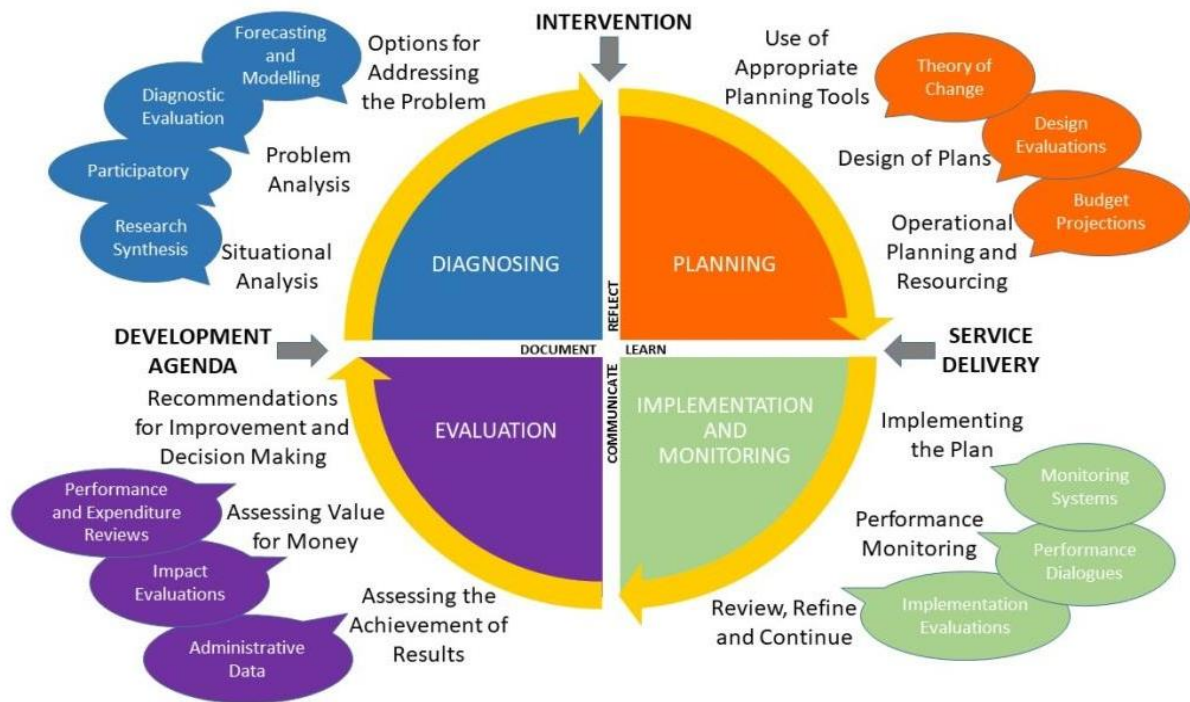
- 1) Hold management accountable for the execution of the operational plans and policies.
- 2) Exercise ongoing oversight of the implementation of the strategy and operational plans.
- 3) Oversee the continuous assessment of negative consequences of its activities on the triple context in which it operates.
- 4) Be alert to the general viability of the SOC with regards its reliance and effects on the capitals, solvency, liquidity and status as a going concern.

The *oversight of organisational performance* is a critical function of every board, and an effective board monitors the overall performance of the SOC, including its strategic, financial, operational and transformational objectives.

- 1) Effective performance and financial monitoring require the board to develop a supportive culture for evaluation – not only within the board, but also within the SOC. An atmosphere of collaboration, trust and respect between the board and the executive management team is important.
- 2) Boards must exercise a balanced approach to overseeing and monitoring organisational performance – effective performance management requires a balance between the identification of successes, and the mitigation of areas for development and risks.

The figure below shows a generic planning and implementation cycle for policies and programmes, and indicates stages in which the use of evidence adds value to diagnosis, planning design, implementation, monitoring and evaluation. This can then improve the developmental results associated with Government's service delivery.



**Figure 11: Evidence-Based Policy Model**

Source: DPME – Revised Framework for Strategic Plans and Annual Performance Plans, 2019

**Principle 5 of King IV** requires the board to ensure that reports issued by the organisation enables stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.

The board should set the direction for, and approve how, *performance reporting* should take place in alignment with legal and regulatory requirements.

The board should ensure that online and printed reports comply with legal requirements and meet the legitimate and reasonable information needs of the key stakeholders. The board should approve management's basis for determining materiality of information to be included in reports.

The board is accountable to ensure the integrity of reports and should, at minimum, oversee the following external published reports:

- 1) Five-year strategic plans,
- 2) Corporate plans,
- 3) Corporate governance disclosure,
- 4) Integrated reports,
- 5) Annual financial statements, and
- 6) Annual reports.

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#### 14.2.2. INTERNAL CONTROLS AND COMBINED ASSURANCE

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**Principle 15 of King IV** requires the board to ensure that *assurance services and functions enable an effective control environment*, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

The concept of 'combined assurance' has been expanded in King IV, which broadens the traditional 'three lines of defence' to 'five lines of assurance' to incorporate all assurance role-players, and to emphasise that assurance is about having an adequate and effective control environment and strengthening the integrity of reports for better decision-making<sup>52</sup>.

The five lines of assurance include:

- 1) Line functions that own and manage risk and opportunity,
- 2) Specialist functions that facilitate and oversee risk and opportunity,
- 3) Internal assurance providers,
- 4) External assurance providers, and
- 5) Governing body and committees.

It requires the Audit Committee to ensure that implementation of the combined assurance model results in combining, coordinating and aligning assurance activities across the various lines of assurance.

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#### 14.2.3. COMPLIANCE

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**Principle 13 of King IV** makes the board accountable to *govern compliance* with applicable laws and adopted, non-binding rules, codes and standards, in a way that supports the organisation being ethical and a good corporate citizen.

King IV recommends that those charged with governance should ensure that compliance is understood, not only as an obligation, but as a source of rights and protection. A holistic view is needed on how applicable laws and non-binding rules, codes and standards relate to one another, including how governance codes relate to applicable legislation.

The regulatory environment needs to be monitored on an ongoing basis, and developments responded to, as it becomes necessary.

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<sup>52</sup> *Werkmans Attorneys – A Review on the King IV Report on Corporate Governance, 2016*

**Figure 12: Board Progression Matrix for “Effective Leadership of SOC Performance”**

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
<b>Effective Oversight and Accountability</b>			
<b>Performance Monitoring</b>	<ul style="list-style-type: none"> <li>Board delegates responsibility to implement strategy and policies to management, with the required support.</li> </ul>	<ul style="list-style-type: none"> <li>Board exercise ongoing oversight of implementation of strategy, corporate plan and policies against performance measures and targets.</li> </ul>	<ul style="list-style-type: none"> <li>Continuous oversight of SOC evaluation of performance results, its responsible response to negative consequences of its activities and outputs on the triple context in which it operates and capitals it uses and affects.</li> <li>Ensures SOC contribution to realisation of national priorities and financial viability and sustainability.</li> </ul>
<b>Non-Financial Reporting</b>	<ul style="list-style-type: none"> <li>ESG/Sustainability reporting, if any, follows minimum national requirement.</li> </ul>	<ul style="list-style-type: none"> <li>Clear and understandable annual updates on ESG provided to stakeholders and affected parties.</li> </ul>	<ul style="list-style-type: none"> <li>Non-financial disclosure is in accordance with highest standards.</li> <li>ESG data provided in annual non-financial reporting is subject to independent review.</li> </ul>
<b>Financial Reporting</b>	<ul style="list-style-type: none"> <li>SOC provides timely annual financial statements, prepared in accordance with national standards.</li> <li>Annual Integrated report issued in compliance with regulations and standards</li> </ul>	<ul style="list-style-type: none"> <li>Approves management’s bases for determining materiality for purpose of inclusion in reports and ensures the issue of annual integrated report.</li> <li>The board oversees the process for ensuring the integrity of the financial statements, including the audit process, selection, compensation and retention of</li> </ul>	<ul style="list-style-type: none"> <li>Integrated reports are a true reflection of facts and include all material information in a transparent manner to allow stakeholders to make informed decisions.</li> <li>Financial statements separately report the impact of any government assistance or benefits.</li> <li>The Audit Committee oversees financial and non-financial reporting and audit.</li> </ul>

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
		<p>the external audit firm, and the oversight of the internal audit function.</p> <ul style="list-style-type: none"> <li>Oversees the company's whistle-blower programmes, and actively monitors reports from stakeholders related to organisational integrity.</li> </ul>	<ul style="list-style-type: none"> <li>Disclosure policy is in place and ensures full and transparent disclosure of the SOC's performance, sustainability and economic value and impact on the triple bottom line.</li> </ul>
<b>Corporate Disclosure</b>	<ul style="list-style-type: none"> <li>The SOC prepares a publicly available annual integrated report and AFS (including corporate governance disclosure).</li> </ul>	<ul style="list-style-type: none"> <li>The SOC publicly discloses and reports on public service or policy obligations that go beyond commercial ones.</li> <li>The SOC publicly discloses its stakeholder engagement policy and provides information on its implementation.</li> <li>Each annual integrated report includes management commentary, SOC policy and commercial objectives, and ESG information, including specifically - ownership and control, risks, board governance.</li> </ul>	<ul style="list-style-type: none"> <li>The SOC publicly and separately discloses the costs of meeting the company's policy objectives.</li> <li>All public disclosures, as well as communications with shareholders and stakeholders, are made available online in a relevant and timely fashion.</li> <li>The company discloses its internal procurement policies.</li> <li>Summary information on all material contracts is disclosed to the public.</li> <li>Governance disclosure is transparent and reflects board maturity.</li> </ul>
<b>Combined Assurance</b>	<ul style="list-style-type: none"> <li>Board assumes responsibility for assurance and delegates oversight to audit and risk committee.</li> </ul>	<ul style="list-style-type: none"> <li>Combined assurance model is applied and optimise individual assurance functions, and together supports the objectives of assurance.</li> </ul>	<ul style="list-style-type: none"> <li>Combined assurance approach minimises/mitigates risk.</li> <li>Provide independent opinion on the integrity of information and reports, and the degree to which an effective control environment is achieved.</li> </ul>

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
<b>Internal Control Environment</b>	<ul style="list-style-type: none"> <li>An adequate internal control system is in place, documented and periodically reviewed by an independent internal audit function.</li> </ul>	<ul style="list-style-type: none"> <li>The internal control system is in accordance with the highest national standards.</li> <li>The internal audit function is established and is in accordance with the highest national standards.</li> <li>The board of directors approves and regularly monitors the company's risk management and compliance policies and procedures.</li> <li>The company has a comprehensive compliance programme that is annually reviewed.</li> <li>The internal audit function is independent and overseen and reports directly to the Audit Committee.</li> </ul>	<ul style="list-style-type: none"> <li>The internal controls system and the internal audit function are risk-based and in accordance with highest international standards.</li> </ul>
<b>Compliance Governance</b>	<ul style="list-style-type: none"> <li>Board assumes responsibility for compliance.</li> <li>A designated compliance officer is appointed.</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive compliance programme annually reviewed, with mechanisms to report wrongdoing and misconduct.</li> <li>Ongoing oversight of compliance management.</li> </ul>	<ul style="list-style-type: none"> <li>Receives periodic independent assurance of the effectiveness of compliance management.</li> <li>The Chief Compliance Officer reports to the Audit Committee, and administratively to management.</li> <li>Full disclosure on compliance inspections and on material or repeated regulatory penalties, sanctions or fines for contraventions of non-compliance.</li> </ul>

### 14.3. EFFECTIVE LEADERSHIP OF GOVERNING STRUCTURES AND BOARD PERFORMANCE ENABLERS

The third level of board performance, in terms of the Board Effectiveness Model (figure 6 above), relates to effective leadership of governing structures, delegations and board performance enablers; including how well the board operates - especially with regards to the leadership and culture of the board; governing structures, delegations, board dynamics, the dynamics with the executive team and the shareholder.

Ethical and effective leadership enables the establishment of a positive culture (both at board level and in the SOC), and ensures that the board's arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of director duties.

The board structure, composition and competence levels; the board processes and procedures; the board dynamics and functioning in the execution of its duties, and communication and relationship management with the Executive Authority and executive management are all elements that should enable improved board performance.

#### 14.3.1. BOARD LEADERSHIP

At the centre of creating an enabling environment, is *ethical* and *effective* leadership. The chairperson's leadership style shapes and influences the culture that is prevalent at board level. The chairperson is tasked with building a cohesive, engaged and purpose-driven team of directors.

**Principle 1 of King IV** deals with the accountability placed on boards to lead ethically and effectively. Members of the board should individually and collectively exhibit *integrity, competence, responsibility, accountability, fairness and transparency* in their daily conduct.

The quality of leadership of a chairperson has a direct impact on the effectiveness of the board and/or committee. An effective chairperson will build a board which has a shared purpose, thinks strategically, is cohesive, actively participates in performing all key functions and regularly engages with and measures the performance of the CEO. The board is required to critically examine leading indicators and review robust, non-financial metrics for success. It is important for a chair to have the necessary competence, attributes and legitimacy to provide the board with effective leadership.

**Principle 3 of King IV** requires the board to ensure that the SOC is, and is seen to be, a responsible corporate citizen. The board must oversee that the SOC's core purpose, values, strategy and conduct is congruent with it being a corporate citizen. In addition, it needs to oversee and monitor how the consequences of the SOC's activities and outputs affect its status as a corporate citizen in terms of the workplace, environment, economy and society.

The Bill of Rights has provided an ethical framework to contextualise and position ethical business activities and responsibilities in terms of corporate citizenship. The Companies Act encourages transparency and high standards of corporate governance and provides regulations regarding the establishment of social and ethics committees at board level.

**Principle 16 of King IV** requires the board to adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the execution of its governance role and responsibilities in the best interest of the SOC over time.



The board must consider the legitimate and reasonable needs, interests and expectations of stakeholders to balance the interests over time by way of prioritising and, in some instances, trading-off interests. In turn stakeholders hold the board and the company to account for their actions and disclosures. The board should ensure that it provides strategic direction and the necessary policy to enable proper management of stakeholder relationships that affect value creation and the achievement of the company's strategic objectives.

An important element of this process involves an effective communication plan. King IV makes it clear that companies should have an integrated communication plan that utilises all communication platforms, including digital communication and, importantly, social media. The communication plan should also provide for the systematic gathering and analysis of information emanating from communication platforms, in order to assess reputational risk. A plan for communicating in crisis situations forms an integral part of the stakeholder communication plan.

Resolving disputes have gained prominence in light of the ongoing volatile and often violent labour strikes in organisations. Relationships are a form of capital that all organisations rely on. It is, therefore, recommended that dispute resolution mechanisms and associated processes be adopted and implemented as part of the stakeholder relationship management strategy<sup>53</sup>.

#### 14.3.2. BOARD CULTURE

The quality of leadership has a direct impact on the quality of the culture at board level and in the SOC. A board culture can be defined as the set of shared attitudes, values, goals, practices and behaviours that characterise the board. Culture defines how the board really operates. It consists of the leadership style, attitudes, habits and practices that make up the distinctive 'personality' of the board. Culture mirrors the true philosophy and values that the board actually practices. As such, it is a measure of how well the board has translated its organisational philosophy into practice.

The values, in turn, inform day-to-day practices of the board and its committees, and the individual behaviours of directors.

Committed and passionate directors are expected to display the following moral duties<sup>54</sup>:

- 1) **Conscience:** Act in the best interest of the company; act for proper purpose – avoid inappropriate self-dealing; and disclose personal conflict of interests.
- 2) **Commitment:** Act in good faith and with diligence.
- 3) **Competence:** Act with reasonable care and skill.
- 4) **Courage:** Exercise discretion independently.
- 5) **Stakeholder inclusivity:** High levels of open, honest and transparent communication between the board, stakeholders and management.

**Principle 2 of King IV** requires the board to govern the ethics of the organisation in a way that supports the establishment of an ethical culture. Therefore, the board should take responsibility for

<sup>53</sup> *The Institute of Directors in Southern Africa - King Committee Report on Corporate Governance, 2016 (King IV) (Part 5.5)*

<sup>54</sup> *The Institute of Directors in Southern Africa – King III Report, 2009*

the governance of ethics and is required to role model the desired culture through its own conduct and character.

The board should:

- 1) Approve the code of conduct and ethics policies to give effect to its direction on organisational ethics, to ensure that it encompasses the organisation's interactions with internal and external stakeholders and broader community, and addresses key ethical risks; and
- 2) Delegate the responsibility to communicate and implement the policies.

### 14.3.3. GOVERNING STRUCTURES AND DELEGATIONS

**Principle 8 of King IV** requires that the board ensures that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.

This requires boards to, when it is deemed appropriate, delegate in writing (or via committee terms of reference) particular roles and responsibilities to individual member(s), or a standing or ad hoc committee, as appropriate. The board should consider any delegation to committee(s) holistically to achieve effective collaboration, a complimentary effort, a balance in the distribution of power in respect of membership on committees, and to ensure the correct mix of knowledge, skills and experience.

Whilst each SOC board has its own unique committee structures based on the governance needs of the organisation, the Audit Committee and Social and Ethics Committee are statutory committees applicable to all boards.

#### AUDIT COMMITTEE:

The Companies Act (Section 94) requires the SOCs to elect an Audit Committee at each AGM, with at least three independent non-executive directors. The Minister may prescribe minimum qualification requirements for members to ensure the Committee has adequate relevant knowledge and experience to perform its functions. The board chair may not be a member of the Committee.

The Committee is responsible for improving management reporting by overseeing audit functions, internal controls and financial reporting processes. It should provide independent oversight of, amongst others:

- 1) The effectiveness of assurance functions and services (focused on combined assurance in terms of the Five-Level Model).
- 2) The integrity of the annual financial statements.

A statutory Audit Committee has the power to make decisions regarding its statutory duties and is accountable for its performance in this regard.

The King IV Code suggests that the Audit Committee oversees auditor independence. This aligns with the publication of the rule by the Independent Regulatory Board for Auditors that

the number of years for which the audit firm has been the auditor of the company be disclosed in the auditor's report.

In addition, the Audit Committee will need to disclose any significant audit matters considered, and how the Committee has addressed the matters and additional disclosure requirements.

If the Audit Committee is also responsible for risk oversight, sufficient time should be made available to focus on this. If the audit and risk committees are separate, then one or more members should have joint membership.

### **SOCIAL AND ETHICS COMMITTEE:**

In terms of the Companies Act, certain companies are required to appoint a Social and Ethics Committee (SEC). King IV recommends the establishment of the SEC as best practice for all organisations, even in the absence of a statutory requirement.

The composition requirement echoes the requirement of the Companies Act, which provides for only directors and/or prescribed officers to be members of the SEC. At least one member of the SEC should be a non-executive director. It is noted that this is an alterable provision of the Companies Act, for the DPE, where the majority of the members of the SEC are non-executive directors. The Social and Ethics Committee terms of reference must be clearly distinguished from that of the Human Resources Committee.

The Code integrates this Committee within a greater governance context by recommending that the SEC oversees the socially responsible aspects of the remuneration policy. Furthermore, King IV expands the role of the SEC beyond that outlined in the Companies Act by including the oversight of ethics in its mandate, which is not expressly covered in the Companies Act.

The SEC should ensure, monitor and report in respect of organisational ethics, responsible corporate citizenship, sustainable development and stakeholder inclusivity<sup>55</sup>. In essence, the key function of this Committee is to act as the social conscience of the organisation, and to ensure that the organisation behaves like a responsible corporate citizen.

Board committees should be established with specific focus and the scope of accountability should be reasonable and enabling. It is recommended that the Social and Ethics committees should be distinctly different from the Human Resources Committee, and this should be specified as a requirement in the SOC MOIs.

### **COMMITTEE RESPONSIBLE FOR BOARD GOVERNANCE AND NOMINATIONS:**

With particular relevance to board effectiveness, the Framework places increased responsibility on the board committee, responsible for board governance and nominations. The committee is required to become more proactive and influential in their role and engagement with the Executive Authority to ensure that the directors who are nominated and appointed serve the SOC's needs best.

King IV states: "even when accounting authorities do not have the power to nominate or elect members, they should actively seek to collaborate with the shareholder on this critical issue. The SOC and the executive authority should be transparent regarding the processes

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<sup>55</sup> The Institute of Directors in Southern Africa - King Committee Report on Corporate Governance, 2016 (King IV)

followed for the nomination, election and appointment of governing body members”. The same approach is advocated when appointing the CEO.

The Governance and Nomination Committee is not a statutory committee and most boards do not have such a committee. However, the functions of such a committee and the result of having a balanced, skilled and experienced board of directors, play a critical role in laying a solid foundation for high-performance at board level.

The board should allocate the oversight of the process for nominating, electing and appointing members, board succession planning and the evaluation of effectiveness of the board to a dedicated committee (this may be in addition to the responsibilities of an already established committee). The governance section of the SOC quarterly reports should provide details on performance against the desired interventions of the shareholder in this regard.

The following responsibilities should form part of the terms of reference of the Committee:

- 1) Provide the Minister with the information regarding the composition of the board and any competency gaps that may exist.
- 2) Recommend minimum requirements to the Minister based on current realities of the SOC and its needs.

Whilst it is the accountability of the Minister to call for nominations, the Committee may make recommendations for the consideration of the Minister for inclusion on the candidate database. Recommendations must be accompanied by a comprehensive motivation and evidence. It is further recommended that the DPE oversight of the nomination and placement process be strengthened.

- 3) Support the Minister in providing necessary information during the board appointment process.
- 4) Half yearly review of the director skills assessment and the identification of skills gaps. Skills assessment results and recommendations to close the skills gap should be submitted to the Executive Authority as part of the quarterly shareholder report.
- 5) Utilise coaching and mentorship within the board and across the entire organisation, as a deliberate mechanism for succession planning.
- 6) Oversee the annual independent board evaluation process and monitor progress on board improvement plans.

#### **COMMITTEE RESPONSIBLE FOR REMUNERATION:**

With the increased strategic relevance and importance of remuneration, the board should allocate the oversight of remuneration to a dedicated committee or add the responsibilities to the scope of an already established committee. It is important that the committee has only non-executive members and that the chair of this committee is independent (the chair of the remuneration committee must not be the chair of the board).

#### 14.3.4. BOARD STRUCTURE, COMPOSITION AND COMPETENCE

**Principle 7 of King IV** requires that the board is comprised of the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

An ideally constituted board of directors is diverse, balanced and independent, and comprised of directors who have the necessary skills, experience and the ability to devote the appropriate time and attention to their professional duties.

The Companies Act provides for a minimum of three directors for a public company. Being an alterable provision, the SOC MOI provides specific minimum and maximum numbers of directors per board. The majority of the board is required to be non-executive, whilst there is a requirement of not less than two executive directors (CEO and CFO).

SOC boards are appointed by the shareholder, in line with DPSA National Guide<sup>56</sup>, who has an accountability to ensure that the size, diversity, demographics and competence of the board responds to the organisational and external realities of the SOC. The King Code requires the nomination, re-election and appointment of directors to be formal and transparent.

The board membership management process is, therefore, a key accountability of the Executive Authority. It requires the development of an integrated board database, the development of a talent pipeline of young professionals and a collaborative approach with SOC board nomination committees, to ensure that decisions are informed by current composition, challenges, skills shortages SOC needs and on defined competency profiles.

In the quest for SOC governance reform, the importance of the role of the shareholder representative in appointing the boards of SOCs cannot be overstated. It is imperative that the shareholder representative acts in the interest of the SOC when appointing a board – to ensure the appointment of a board free from political interference and a competent board, whose members

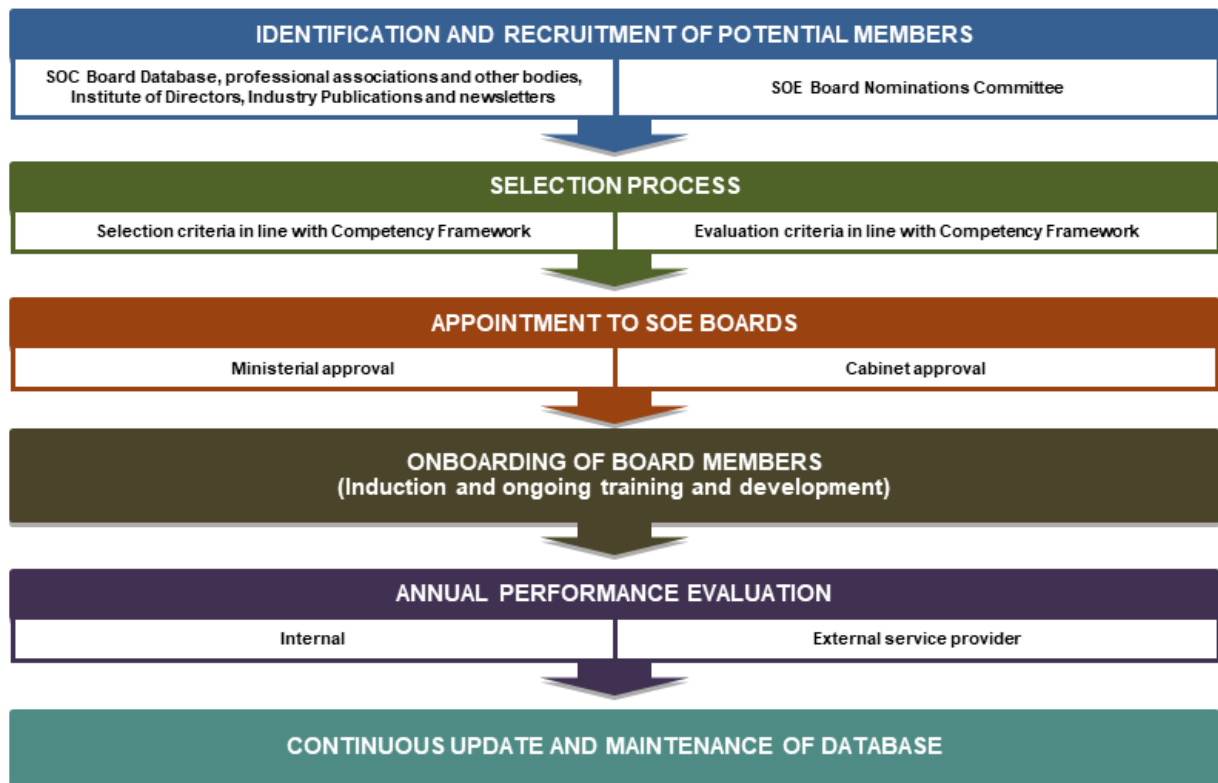
- 1) Actively contribute to its own effectiveness; and
- 2) Add value to the SOC in its guidance and oversight of SOC performance.

The board membership management process, as depicted in figure 7 below, is a key accountability of the Executive Authority, supported by the shareholder department.

Board capacity, capability and commitment have a direct impact on the level of board effectiveness. There is a need for increased collaboration between the Minister and the board to ensure that a centralised director database is established, board vacancies are filled in a reasonable time, the calibre of directors is reflective of competency requirements of SOCs and professionalisation of directors, the process of nomination and placements are formalised and transparent, and comprehensive validation and verification of qualifications, experience and backgrounds of individuals are undertaken.

***As a guideline, Annexure B reflects a recommended Director Competency Framework for consideration.***

<sup>56</sup> Department of Public Service and Administration – draft National Guide for the Appointment of Persons to Boards and Chief Executive Officers of State-Owned and State-Controlled Institutions, 2018

**Figure 13: Board membership management process**

Source: DPE – Overview of Board Membership Management Process

Upon appointment, all directors should receive a formal letter of appointment, terms and conditions and a code of conduct. The board chair needs to ensure that every director undergoes a formal induction programme and relevant training programmes, to ensure the competence and ongoing development of board members.

Training and development play a critical role in ensuring a higher quality director to serve on boards. An annual formal training programme should be developed for each board, informed by previous board evaluation outcomes, identified individual director development needs and new developments in the prevailing legislation, directives and corporate governance guidelines.

In addition, it is recommended that a comprehensive training programme is implemented for the development of chairpersons, to capacitate them to lead the boards of directors more effectively.

### 14.3.5. BOARD PROCESSES

**Principle 6 of King IV** requires that the board *should serve as the focal point and custodian of corporate governance in the organisation*. It is, therefore, important for the board to uphold the core values and moral duties bestowed on it to effectively lead the SOC.

The effective management of disclosures of interests is critical for ethical leadership. Board members must act proactively and timeously in fully disclosing their interests to more effectively manage potential conflicts of interest; and must test the effectiveness of the SOC's disclosure of interest policies and procedures regularly.



In addition, an effective board establishes the necessary general structures and processes to fulfil board responsibilities, reflecting the appropriate insights of stakeholders.

To be effective in their oversight role, boards need to develop an annual work plan, aligned to SOC strategy, to inform the formulation of board agendas. High-quality information and the ability to critically review and analyse information is important. Therefore, boards should establish a consistent method for receiving, reviewing and utilising the information received.

Other factors contributing directly to the effectiveness of boards are:

- 1) The structure of the agenda.
- 2) The balance of time allocated to strategic and operational issues, as well as key challenges faced by the SOC.
- 3) The frequency of meetings.
- 4) The quality and timeous distribution of board packs to ensure directors have sufficient time to prepare for meetings.
- 5) Effective logistical arrangements for board meetings.
- 6) The quality of discussions.
- 7) The accuracy of minutes and documented resolutions.

Induction processes aim to ensure that all new board members are informed of the roles and responsibilities of a director and understand the corporate governance requirements of the board. In addition, ongoing training and development interventions should be embraced, to ensure that individual members are developed to become competent in their respective roles, and to become more impactful as individuals serving on the board.

**Principle 9 of King IV** requires the board to ensure the *evaluation of its own performance and that of its committees, its chair and its individual members; and to support continued improvement in its performance and effectiveness.*

A high-performing board will endeavour to disclose details about the evaluation undertaken, an overview of the results, and whether it is satisfied that the process is improving its effectiveness. Of critical importance is that the board develops a board improvement plan to address the areas for development highlighted by the evaluation, and to remain accountable to the shareholder for the required improvement.

**Principle 10 of King IV** requires the board to ensure the appointment of, and delegations to, management; and ensure that delegations contribute to role clarity in the SOC; and ensure the effective exercise of its authority and responsibilities.

*Healthy board dynamics* allow board members to engage in an open and frank manner, whilst ensuring robust discussion and debate, to proactively and decisively deal with the challenges and risks of the SOC. Independent thinking and sound judgement is required when managing strategic risks faced by the SOC and its people.

The oversight exercised over executive managements' execution of the strategy and performance reporting needs to be constructively disruptive and founded on a mutual trust and respect, in order to challenge mind-sets and approaches.

The quality of relationships between the shareholder, the board and the CEO and his/her executive team is regarded as an important performance enabler of board and SOC performance. The board-executive management relationship needs to be underpinned by mutual respect, transparency, ethics and honesty to ensure that management is able to effectively execute the strategic intent of the SOC, and be accountable to the board for the performance of the SOC.

The separation of powers between the chairperson and the CEO is an important requirement for board effectiveness. It allows the chair and the board to focus on the strategic leadership and oversight role, whilst the CEO can focus on the implementation of the strategic intent of the SOC.

The DPE draft Protocol<sup>57</sup> distinguishes the relationship the board has with the shareholder from the relationships the board has with the broader stakeholder groups. The relationship with the shareholder is more direct and is governed by the shareholder compact – underpinning the board's accountability to the shareholder for SOC performance and governance. It is, therefore, important to formalise the direct lines of communication between the shareholder, the board and the CEO, and that the shareholder engagement process makes provision for engagements between the board and the Minister at critical points during the year.

King IV proposes a number of specific measures to ensure effective engagement with shareholders, including steps to ensure that the company encourages shareholders to attend general meetings, attendance of these meetings by the chair of the board and the chairs of respective board committees, as well as their active participation in meetings. King IV further proposes that the designated partner of the external audit firm should attend the general meeting, and shareholder activism is emphasised and encouraged.

#### **ANNUAL BOARD HANDOVER REPORT:**

As part of governance and oversight reform in SOC's, the Board Evaluation Framework introduces a new requirement as part of the shareholder management process, in that boards need to develop an annual handover report, at the end of each financial year - to inform and orientate new board members for the next year, and to provide the necessary documentation and information to enable continuity. The Minister may request the report as and when necessary.

The recommended content of the handover report is as follows:

- 1) Overview of SOC performance to date.
- 2) Overview of key challenges experienced, and lessons learnt by the board.
- 3) Overview of key risks for the next year and considerations for mitigation.
- 4) A summary of key decisions and board resolutions for the past year and a brief description of all unfinished issues for consideration, decision-making and action.
- 5) Actions taken to improve board effectiveness in governance and oversight of the SOC in line with the board improvement plan and improvement actions in progress or not yet completed.

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<sup>57</sup> Department of Public Enterprises –draft Protocol on Corporate Governance in the Public Sector, 2015

**Figure 14: Board Progression Matrix for “Effective Leadership of Governing Structures and Board Performance Enabler”**

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
<b>Effective Leadership of Governing Structure and Board Performance Enablers</b>			
<b>Effective and Ethical Leadership</b>	<ul style="list-style-type: none"> <li>Board members act in good faith and in the interests of the SOC.</li> <li>Board members display an understanding of ethical leadership requirements, and values and moral obligations.</li> </ul>	<ul style="list-style-type: none"> <li>Board members display most of the ethical and effective characteristics in their conduct.</li> <li>Board members define the ethical tone in the SOC, promote an ethical culture through their own conduct, and implement mechanisms to manage disclosure of interests.</li> </ul>	<ul style="list-style-type: none"> <li>Directors' are recognised by others for upholding the values of honesty, integrity, competence, responsibility, accountability, fairness and transparency.</li> <li>Director's role model the moral code of conscience, courage and inclusivity.</li> <li>Board members live the ethical values and take their moral obligations seriously, especially in the disclosure of interest and the appropriate recusal of members where conflicts of interest are present. Sets the tone for ethics.</li> <li>Board exercises oversight of the implementation and management of ethics and ensures sanctions and remedies are actioned in the event of a breach of ethics.</li> <li>Transparency in disclosure of SOC ethics.</li> </ul>
<b>Responsible Corporate Citizenship (RCC)</b>	<ul style="list-style-type: none"> <li>Ensures SOC responsible corporate citizenship efforts align with legislative and regulatory frameworks.</li> </ul>	<ul style="list-style-type: none"> <li>Assumes responsibility for corporate citizenship, upholds leading standards and monitors impact of SOC on environment, society, economy and workplace.</li> </ul>	<ul style="list-style-type: none"> <li>Discloses corporate citizenship in a transparent manner - re governance arrangements, key areas of focus, outcomes of impact assessments and planned focus areas for the future.</li> </ul>

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
<b>Stakeholder Inclusivity</b>	<ul style="list-style-type: none"> <li>Approves stakeholder management plan developed by management.</li> <li>Ensures the establishment of dispute resolution mechanisms and processes.</li> </ul>	<ul style="list-style-type: none"> <li>Sound understanding of the interests, needs and expectations of the stakeholders.</li> <li>Oversees and supports the effective management of stakeholder relations by executive and senior management.</li> <li>Oversees the implementation of dispute resolution mechanisms and processes and receive quality information about issues of dispute or dissatisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>Effectively balances the interests, needs and expectations of stakeholders in the best interest of the SOC.</li> <li>Builds trust, credibility and a good reputation in the eyes of stakeholders and is regarded as a legitimate board/SOC.</li> </ul>
<b>Ethical Culture</b>	<ul style="list-style-type: none"> <li>Approves code of conduct and ethics policies developed by management.</li> </ul>	<ul style="list-style-type: none"> <li>Codes of conduct and ethics policies give effect to the direction of the organisational ethics and encompass SOC's interaction with internal and external stakeholders and broader society. Board oversees management of ethics.</li> <li>Ongoing oversight of the SOC management of Code of Conduct and Ethics Policy.</li> <li>Provide clear direction to the SOC with regards to interaction with stakeholders.</li> <li>Address key ethical risks of the SOC.</li> </ul>	<ul style="list-style-type: none"> <li>Role models in the implementation of the code of conduct and ethics policy.</li> <li>Disclose issues of ethics in a transparent way and implement consequence management for areas of misalignment to code and policy.</li> <li>The codes of ethics and/or conduct fully integrate ESG practices in business activities.</li> <li>A code of ethics is included in board and employee induction programmes.</li> </ul>

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
		<ul style="list-style-type: none"> <li>A code of ethics and/or conduct is approved by the board and publicly disclosed.</li> </ul>	
<b>Corporate Governance Custodianship</b>	<ul style="list-style-type: none"> <li>The SOC addresses corporate governance principles and its role through its constituting documents and corporate policies (e.g. board charter).</li> </ul>	<ul style="list-style-type: none"> <li>The SOC has a formal corporate governance policy framework through a manual or its set of constituting documents and corporate policies, addressing, at a minimum, corporate governance principles, the role of the board, compliance with the law, rights and treatment of shareholders and other stakeholders, and transparency and disclosure.</li> </ul>	<ul style="list-style-type: none"> <li>Periodic transparent disclosure of the corporate governance framework and practices and compliance with the national corporate governance code of best practices.</li> </ul>
	<ul style="list-style-type: none"> <li>The role of all board members and committee members are clear, agreed and specified.</li> </ul>	<ul style="list-style-type: none"> <li>Board chair promotes collaborative discussions, and board members actively contribute and add value to effective board functioning and dynamics.</li> </ul>	<ul style="list-style-type: none"> <li>The board chair encourages robust, honest and positively disruptive engagements to improve the quality of resolutions and decisions in the best interest of the SOC.</li> <li>Board is a cohesive team of leaders, whilst maintaining a healthy culture of independent oversight and governance.</li> </ul>
	<ul style="list-style-type: none"> <li>Directors submit declarations of conflicts of interest and financial, economic and other</li> </ul>	<ul style="list-style-type: none"> <li>Non-executive directors are categorised as independent after careful consideration of interests, associations, position and relationships and confirming that it does not cause bias in decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>Directors display independence in thinking and objectivity in decision-making in the best interests of the SOC, and does not unduly receive personal benefit from actions or decisions.</li> </ul>

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
	interests in line with legislative requirements.		
<b>Governance Structures</b>	<ul style="list-style-type: none"> <li>Board approved terms of reference exist for all committees.</li> <li>Ensures statutory committees are in place.</li> <li>The SOC is audited by an independent external auditor (EA) irrespective of any State audit conducted.</li> <li>No committee is accountable for nominations of directors.</li> </ul>	<ul style="list-style-type: none"> <li>Committee structures promote collaboration, the coordinated timing of meetings and minimising of fragmentation.</li> <li>Committee composition complies with legislative requirements and full disclosure is practiced.</li> <li>The Audit Committee is responsible for the selection of the external auditor and ensures their independence.</li> <li>The Audit Committee owns the relationship with the external auditor, agrees on scope and audit fees, has an early discussion on key audit matters and generally oversees the conduct of the external audit.</li> <li>Has a committee responsible for board nominations, succession planning and evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>The board ensures that committee structures promote independent judgement, balance power dynamics and allow for the effective discharge of duties.</li> <li>The Audit Committee undertakes a periodic audit quality assessment, using audit quality indicators (AQI) and reviews.</li> <li>The Nomination Committee plays an active role in facilitating board evaluation and improvement, and provides the Executive Authority with comprehensive information to inform rotation and appointment decisions.</li> </ul>
	<ul style="list-style-type: none"> <li>Shareholder compact is agreed and signed on an annual basis, as foundation</li> </ul>	<ul style="list-style-type: none"> <li>Board oversees SOC performance and provide the shareholder with periodic</li> </ul>	<ul style="list-style-type: none"> <li>Open, transparent and honest relationship between shareholder and board of directors.</li> </ul>



Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
	<p>to the shareholder-board relationship.</p> <ul style="list-style-type: none"> <li>Engagements with executive and senior management are limited to the presentation of information at board meetings.</li> </ul>	<p>updates on progress against the shareholder compact.</p> <ul style="list-style-type: none"> <li>Regular engagements between the board/ the chair and CEO of the SOC.</li> </ul>	<ul style="list-style-type: none"> <li>Board regularly engages with the shareholder to proactively share critical strategic developments, relevant information and assurances.</li> <li>Strong relationship between board and executive management. The board, executive and senior leadership works in collaboration and in the best interest of the SOC.</li> </ul>
<b>Board Composition</b>	<ul style="list-style-type: none"> <li>EA adopts minimum education, experience and ethical requirements for the selection of board members.</li> <li>The size of the board corresponds to the need for skills and diversity, and is kept at a reasonable level.</li> <li>No ministers or elected officials serve on the board.</li> <li>May have long-standing vacancies on the board.</li> </ul>	<ul style="list-style-type: none"> <li>The board members are appointed for fixed renewable terms not exceeding three years.</li> <li>Government officials with a regulatory role are prohibited from serving on the board. The number of civil servants and employees from other SOC's serving on the board is restricted.</li> <li>1/3 or more of board members are independent from management, the State and controlling shareholders.</li> <li>The board composition is based on a skills matrix.</li> <li>Roles of chair and CEO are separate, and board chair is independent from the State.</li> </ul>	<ul style="list-style-type: none"> <li>A formal, merit-based, and transparent process for the selection and nomination of board members, such as a board nomination policy is in place and publicly disclosed.</li> <li>A board-established succession plan for board members and senior management is approved and implemented.</li> <li>1/2 or more of board members are defined as independent in accordance with international best practices.</li> <li>Board diversity, including gender and skill mix, is achieved.</li> </ul>

Key Area of Focus	Foundational Board <i>Compliance focus at Board and SOC Level</i>	Developing Board <i>Ensure compliance, whilst aiming to become more forward-looking in the leadership and governance of the SOC to ensure good organisational performance</i>	Strategic Board <i>Board is a strategic asset to the SOC in its leadership and governance role, whilst driving high-performance in governance outcomes and commercial and social outcomes</i>
		<ul style="list-style-type: none"> <li>Vacancies are filled in accordance with DPSA guidelines.</li> </ul>	
<b>Board Processes and Procedures</b>	<ul style="list-style-type: none"> <li>The board has defined its role and procedures in its board charter.</li> <li>The board meets at least quarterly.</li> <li>Board members are given sufficient time and information to exercise their duty.</li> <li>The board undergoes periodic evaluation and discloses when it takes place.</li> </ul>	<ul style="list-style-type: none"> <li>The board members attend leadership and professional training on corporate governance and compliance.</li> <li>The length and frequency of board and board committee meetings are adequate to enable the board to fulfil its role.</li> <li>The board and committee evaluations are conducted/facilitated by a third party and the board discloses key results.</li> </ul>	<ul style="list-style-type: none"> <li>Independent directors meet separately at least once a year.</li> <li>Outcomes of the board evaluation are considered in making decisions to renew board mandates and to develop improvement plans.</li> <li>Board evaluation is aligned with SOC performance and shareholder compact - comprehensive evaluations take place annually. Transparent disclosure of board evaluation practices, results and improvement plans.</li> </ul>

## 15. BOARD EVALUATION PROCESS AND MINIMUM STANDARDS

In line with global trends, boards remain accountable to ensure the regular evaluation of the effectiveness of the board as a whole, its committees and the individual directors. The shareholder, in turn, has a vested interest in better understanding the effectiveness and impact of the SOC boards, to inform evidence-based decisions pertaining to the board and the respective SOC.

For board governance, organisational performance and strategic impact to be strengthened, boards need to embark on developmental journeys towards enhanced board effectiveness. This requires a fundamentally different approach to evaluating the effectiveness of the SOC boards.

### 15.1. SOC BOARD EVALUATION

The evaluation of board effectiveness is focused on driving high-performance across the board and the organisation, whilst developing boards to become strategic assets to the SOC they lead.

Board evaluations will be conducted through the use of two inter-related and interconnected board evaluation mechanisms, namely:

- 1) **An annual independent board evaluation driven by the SOC boards themselves** - the SOC board shall be responsible for the funding and implementation of the independent board evaluation process, and the development of a resulting Board Improvement Plan, informed by the results of the evaluation.

It is acknowledged that support from the shareholder may be required to implement aspects of the improvement plan and should be formally contracted with the shareholder during the review of the board report and proposed board improvement plan. Quarterly reporting on implementation will assist in tracking the plan.

- 2) **A shareholder-driven board evaluation, to be used as and when required** - the DPE shall be responsible for the funding and the implementation of the shareholder-driven board evaluation and any resultant action plan(s).

The approach, methodology and processes for both the independent board evaluation and the shareholder-driven board evaluation are informed by this Board Evaluation Framework.

#### 15.1.1. INDEPENDENT SOC BOARD EVALUATION

SOC boards are accountable to ensure the evaluation of their performance, their committees' performance and the individual directors' performance, annually. The board evaluation must be facilitated by a qualified, competent and experienced external service provider, whose work is informed by this Board Evaluation Framework.

It is important to note that there is not a one-size-fits-all approach or method to conducting board evaluations - board evaluations must remain dynamic and responsive to changes in an organisation or its operating environment. Therefore, board evaluations should be tailored to the defined purpose of the evaluation: A developmental focus; or reviewing actual performance of the board and its directors; or identifying areas where board composition and diversity may need to

change or whether new skill sets are required to bring a balance into the board; or a combination of all three.

The conducting of an effective annual independent board evaluation is the responsibility of the board of the SOC, who will be supported by the governance and nomination committee of the board and/or the company secretary.

It is recommended that the DPE establishes a panel of service providers who have been vetted and confirmed as specialists/experts in the field of board evaluation, subject to the PFMA and related procurement legislation, policies and procedures.

#### **15.1.1.1. INDEPENDENT BOARD EVALUATION CYCLE**

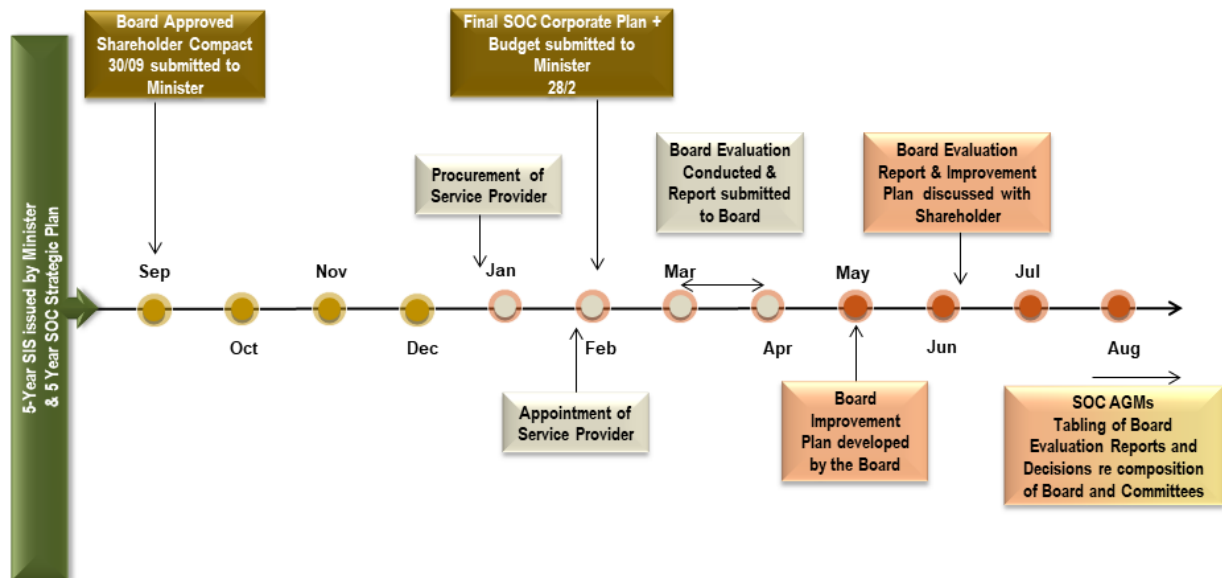
The timing of the independent board evaluation will have a direct impact on the potential value it holds for the board and for the Executive Authority. It is essential that the board engages with the Minister to present and discuss the results of the board evaluation and the board improvement plan, to allow the Minister sufficient time to make informed decisions about the potential appointment of directors, the composition of the board and its committees into the future.

The shareholder's compact shall be agreed between the Executive Authority and the board by no later than 30 September of each year, to provide enough time for the SOCs to develop the annual corporate plan and submit it to the Executive Authority by the end of February each year.

The annual independent board evaluation should take place in March and April of each year, early enough in the year to allow the board sufficient time to critically review the results of the evaluation and to develop the board improvement plan, prior to the scheduled engagements with the Minister in July of each year. Accordingly, the timelines provided for in the MOI will need to be amended.

This will also allow the shareholder sufficient time to interrogate the results and inform decisions regarding the board and the organisation at the Annual General Meeting of the SOC (AGM).

Independent board evaluations shall, therefore, be conducted annually in line with the following cycle:

**Figure 15: Independent board evaluation timeline****15.1.1.2. MINIMUM STANDARDS FOR THE INDEPENDENT BOARD EVALUATION**

Best practice shows that the most effective way of conducting a comprehensive board evaluation is to use a combination of methods, such as a review of strategic documentation and performance reports, board questionnaires, one-on-one or group interviews, and observations of board meetings.

Most external service providers follow their own unique methodology and utilise their own evaluation tool and process to conduct a board evaluation. Whilst the Framework does not intend to prescribe the choice of service provider, the board evaluation tool, or how board performance should be measured, it is important that the external service provider aligns the evaluation process and final report to the minimum requirements and standards set out in this BE Framework.

The BE Framework prescribes the following minimum standards that must be followed when conducting the independent board evaluation:

- 1) The independent board evaluation should be conducted by a suitably qualified external service provider (selected from the approved panel of service providers).
- 2) Board evaluations should take place in March and April of each year to allow the shareholder sufficient time to interrogate the results and inform decisions regarding the board and the organisation at the AGM.
- 3) The independent board evaluation process must be well-planned, and the SCM processes to contract service providers from the panel must be put in motion in time to allow the achievement of the board evaluation calendar.
- 4) The independent board evaluation must include an evaluation of the board, its committees, its chairperson and the chairpersons of the committees, and the individual directors (including the executive directors).

- 5) It is compulsory that the independent board evaluation is conducted using online functionality for ease-of-use and to enable the archiving of results.
- 6) The evaluation should include an evaluation of the nature and strength of the relationships between the shareholder, the board and the executive management team, and should include a peer review.
- 7) It is compulsory for the boards to develop a board improvement plan to address the areas of development identified in the independent board evaluation, also including a reflection on the improvements implemented during the previous period in order to track progress made.
- 8) The independent board evaluation and the resulting board improvement plan should be tabled to the Minister by no later than 1st week of June. Thereafter, an engagement should be scheduled between the board and the Minister, in July, to discuss the results of the board evaluation and the content of the improvement plan.
- 9) Boards must regularly review progress against the board improvement plan to ensure effective implementation of corrective measures. These reviews should be included in the quarterly reports, to allow the shareholder to track actions and progress based on the plan.
- 10) The board must make relevant disclosures of the board evaluation in its integrated report (process and methodology, results of BE, improvement plans to improve, including progress against previous improvement plans).

#### 15.1.1.3. MINIMUM REQUIREMENTS FOR THE INDEPENDENT BOARD EVALUATION REPORTS

The Board Evaluation Framework aims to strengthen SOC governance through the introduction of a more evidence-based approach to evaluating the effectiveness of SOC Boards in the achievement of the desired governance outcomes to ensure the future sustainability of and value creation by the SOC.

The independent service providers facilitating the board evaluations maintain the flexibility to evaluate the effectiveness of the SOC boards, using their unique methodology and approaches. However, the final board evaluation report must include:

- 1) A section reflecting the effectiveness of the board implementation of the King IV principles and practices. To improve the value to SOC Boards, this section will also serve to provide the board with the required information to reflect how the SOC applies the King IV Principles and to explain why some of the recommended practices are not applied. *Please refer to Annexure C for a template to summarise the Board's performance against the King IV principles and practices.*

The outcome of this section is a Board Performance Rating (BPR), calculated by averaging the performance scores allocated on the board's effectiveness in applying the King IV principles. Service providers are required to utilise the following rating scale:

1	2	3	4
Strongly Disagree	Disagree Needs improvement	Agree Satisfactory	Strongly Agree Excellent



Needs significant improvement			(Best Practice)
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- 2) A section reflecting on the Board's performance towards the realisation of the Governance Outcomes - Ethical Culture; SOC Performance; Internal Controls; and Legitimacy
- 3) A section reflecting the board's performance and impact on leading the SOC towards the achievement of organisational performance (achievement of performance targets aligned to SIS, shareholder compact, the corporate plan and the remuneration gatekeepers) and future sustainability.

#### 15.1.1.4. MINIMUM REQUIREMENTS FOR THE INDEPENDENT BOARD EVALUATION REPORTS

The Board evaluation reports, and improvement plans must be tabled to the Minister by no later than 1st week of June each year, in preparation of engagements to discuss the results and improvement plans.

In addition, the Chairperson must submit a one-page motivation on each Non-Executive Director to motivate the re-appointment and/or rotation of the Director. The Chairperson's motivation must be informed by the results of the peer review of individual Director Performance.

#### 15.1.1.5. DISCLOSURE OF BOARD EVALUATION RESULTS

The disclosure practices of board evaluations are indicative of the maturity of a board, and indicate the extent the SOC boards have embraced the evaluation process for its true value to improve the effectiveness of the board.

The following requirements are defined for the transparent disclosure of board evaluation processes and results:

- 1) Provide a detailed description of the board evaluation process and the focus of the evaluation.
- 2) Provide a summary of the results of the board evaluation.
- 3) Provide an overview of the board effectiveness improvement plan and progress against the plan.
- 4) Provide evidence on the compliance with governance principles.

It is recommended that the disclosure of the board evaluation process, results and corrective action is mainstreamed into the current quarterly governance reports, to provide the shareholder with a dynamic, comprehensive and evidence-based reflection of the state of governance in the SOC. This will require an amendment to the Quarterly Reporting guidelines.

## 15.2. SHAREHOLDER-DRIVEN BOARD EVALUATION

The development of this standardised Board Evaluation Framework has provided the opportunity to review the purpose and use of the legacy 'Interim Board Evaluation' tool and process, which will from now on be called a 'Shareholder-driven Board Evaluation'.

There is agreement that the current 'vanilla' questionnaire as an interim tool adds little value to the Minister and the SOC boards. However, the need and difference between an independent SOC board evaluation and the shareholder-driven board evaluation is understood and supported.

While the annual independent board evaluation will unfold as prescribed above, the Minister may from time to time be compelled to conduct a shareholder-driven board evaluation, where the legitimacy of the annual independent board evaluation report is questionable.

All board evaluations should be tailored based on the realities of the SOCs and the needs of the boards at that point in time. In the same vein, the Minister will tailor the shareholder-driven board evaluation process to address the issues at hand. Therefore, no single tool or approach is prescribed by this BE Framework, as this may limit the shareholder's flexibility in the process to run targeted board evaluations.

The shareholder-driven board evaluation process is envisaged as an ad-hoc, yet comprehensive, evaluation of board effectiveness. The process, in line with best practice, shall be a multipronged process making use of desk-based reviews of strategic documents, research, focus groups, interviews, observations and multi-rater evaluations.

The shareholder may also use the process to run across the entire portfolio of SOCs, to enable an independent comparative review of board effectiveness across the portfolio of SOCs.

As the boards of SOCs contract external service providers to conduct a board evaluation, so the Executive Authority may contract the services of a professional and competent service provider to conduct the shareholder-driven board evaluation, informed by this Board Evaluation Framework.

## 16. ROLES AND RESPONSIBILITIES IN INSTITUTIONALISING THE BOARD EFFECTIVENESS FRAMEWORK

This section identifies key role-players in the institutionalisation of the Board Evaluation Framework and defined the key roles and responsibilities.

### 16.1. EXECUTIVE AUTHORITY

At a high level, the Executive Authority is responsible for overseeing and ensuring the effective implementation of the Board Evaluation Framework, towards strengthened governance and oversight of the SOCs.

The additional issues that will support the institutionalisation of this framework need to be project planned and actioned, as part of the ongoing strengthening of the DPE shareholder management framework.

In this regard, a key role is to ensure aligned performance planning and contracting - the Executive Authority must ensure the reform of the shareholder compact to align with the Framework.

When conducted well, the board evaluation will improve the Minister's ability to make evidence-based and informed decisions about the future composition of the board and its committees, the potential rotation of directors, the recruitment and the appointment of new directors. Critically, it will enable the Executive Authority to clarify performance expectations for the board for the following year.

The role of the Minister in relation to board composition, rotation, removal and appointments is to ensure that decisions are evidence-based, and are:

- 1) Based on the requirements of the SOC and the competency requirements of the board.
- 2) In the best interest of the SOC and the effective functioning of the board.
- 3) Aimed at carefully balancing the interest of the shareholder with the requirements of the SOC board and company.
- 4) Free from political interference and overreach in terms of defined roles and responsibilities.

There must be an openness to increased collaboration and engagement between the Minister and the boards of the SOC, to provide the boards with feedback on the quality and perceived legitimacy of the board evaluation reports.

Where the Minister has doubts regarding the legitimacy and accuracy of board evaluation reports and progress towards board effectiveness, he/she reserves the right to conduct a shareholder-driven board evaluation, aligned to this BE Framework.

## **16.2. DEPARTMENT OF PUBLIC ENTERPRISES**

The Department of Public Enterprises supports the Minister, in his/her role as Executive Authority, in the following areas relevant to the shareholder management process:

- 1) Support the development of the rolling medium-term (three-year) SOC strategic intent statements; aligned to and informed by, the National Priorities and Outcomes.
- 2) Facilitate the development and agreement of the annual SOC shareholder compacts, aligned, and giving effect to, the SOC strategic intent statement.
- 3) Conduct governance assessments on the corporate plan on behalf of the Minister.
- 4) Review board evaluation reports and progress against the board improvement plan.
- 5) Track SOC board effectiveness progress on DPE Board Performance Index.
- 6) Provide advice and support to the Minister in the oversight responsibility of SOC.
- 7) Support the preparation of investor briefs based on the assessment of quarterly reports.

### 16.3. BOARD CHAIRPERSON

The role of the board chairperson has evolved over the years and attracts great attention, as it holds power and authority on the board, and provides leadership to the SOC directors and executive management.

The chairperson has the following responsibilities in the context of the implementation of the Board Evaluation Framework:

- 1) Adhere to the Directors' Code of Conduct.
- 2) Lead and ensure that the independent board evaluation is conducted on an annual basis and that it includes an evaluation of the board, its committees, its chairpersons and other individual directors in alignment with the SOC Board Evaluation Framework.
- 3) Actively inform the development of, and ensure the approval of, the terms of reference to contract an independent provider to conduct the independent board evaluation.
- 4) Delegate the accountability to drive, oversee and facilitate the conduct of the independent board evaluation to the lead-independent or the Governance and Nomination Committee.
- 5) Actively contribute to the independent board evaluation process to ensure the most value is generated from the exercise.
- 6) Provide honest, open and constructive feedback to individual directors regarding their performance and effectiveness levels.
- 7) Receive feedback about self in an emotionally mature manner, and actively take action to implement improvements in their own and overall board performance.
- 8) Recognise progress of the board and its members towards strengthened governance and oversight of the SOC.
- 9) Lead and ensure the development of a board improvement plan based on the results of the independent board evaluation.
- 10) Build a strong, open and trusting relationship with the shareholder and his/her representatives with a mutual aim of strengthening governance in the SOC.
- 11) Build strong relationships with the CEO and executive management team.
- 12) Ensure the provision of accurate and timely information to the shareholder for improved decision-making.
- 13) Ensure the professional and comprehensive disclosure of independent board evaluation results, to provide stakeholders with sufficient information, and in a manner that displays board maturity.

### 16.4. LEAD INDEPENDENT DIRECTOR

King IV recommends that it is good practice to appoint a lead independent director (LID) as a matter of course, regardless of whether the chair is independent or not; and who is ideally placed to chair

the Governance and Nominations Committee. It is recommended that a lead independent director is designated as part of the placement process.

The key role of the LID is to facilitate and oversee the annual independent board evaluation process. The lead independent director is also best placed to chair the Governance and Nominations Committee, which is accountable for board evaluation and many other parallel processes that enable boards to become more effective.

The LID has the following responsibilities in the context of the implementation of the Board Evaluation Framework:

- 1) Adhere to the Directors' Code of Conduct.
- 2) Support the board chairperson in ensuring that the annual independent board evaluation is conducted by a suitable external service provider.
- 3) Develop, with the support of the Governance and Nominations Committee, the terms of reference for the independent board evaluation, based on the needs of the board and in alignment with the SOC Board Evaluation Framework.
- 4) Oversee the conduct and outcome of the evaluation of the chairperson.
- 5) Actively contribute to the independent board evaluation process to ensure the most value is generated from the exercise.
- 6) Provide honest, open and constructive feedback to individual directors regarding their performance and effectiveness levels.
- 7) Receive feedback about self in an emotionally mature manner and actively take action to implement improvements in their own and overall board performance.
- 8) Monitor progress of the board and its members towards strengthened governance and oversight of the SOC.
- 9) Facilitate the development of a board improvement plan based on the results of the independent board evaluation, and monitor progress against the plan.
- 10) Support the chairperson in building a strong, open and trusting relationship with the shareholder and his/her representatives, with a mutual aim of strengthening governance in the SOC.
- 11) Build strong relationships with the CEO and executive management team.
- 12) Ensure the provision of accurate and timely information to the chairperson for improved decision-making.
- 13) Oversee the professional and comprehensive disclosure of the independent board evaluation results, to provide stakeholders with sufficient information and in a manner that displays board maturity.
- 14) In conjunction with the chairperson, ensure the development of the annual board training and development plan.

## 16.5. NOMINATION AND GOVERNANCE COMMITTEE

The committee or function (where the function is included in the scope of another committee) supports the lead independent director with the facilitation and conduct of the annual independent board evaluation process.

The key roles and responsibilities include:

- 1) Support the development of the terms of reference to contract a suitable board evaluation service provider.
- 2) Review the annual independent board evaluation report and support the facilitation of the development of a board improvement plan.
- 3) Monitor and report on progress made in terms of the board improvement plan.
- 4) Actively collaborate with the shareholder to provide him/her with evidence-based information regarding the board's effectiveness, competency profile, resignations, competency gaps, experience and characteristics, to support the selection and appointment of suitable, qualified, experienced and committed directors.

## 16.6. INDIVIDUAL DIRECTORS

The individual directors have the following responsibilities in the context of the implementation of the Board Evaluation Framework:

- 1) Adhere to the Directors' Code of Conduct.
- 2) Actively contribute to the board evaluation process to ensure the most value is generated from the exercise.
- 3) Provide honest, open and constructive feedback to individual directors regarding performance and effectiveness levels.
- 4) Receive feedback about self in an emotionally mature manner and actively take action to implement improvements in their own and in overall board performance.
- 5) Participate in the monitoring of progress of the board and its members towards strengthened governance and oversight of the SOC.
- 6) Actively participate in the development of a board improvement plan based on the results of the independent board evaluation, and monitor progress against the plan.
- 7) Build strong, open and trusting working relationships with other directors and ensure commitment to the tasks at hand.
- 8) Build sound working relationships with the CEO and executive management team.
- 9) Support the professional and comprehensive disclosure of board evaluation results, to provide stakeholders with sufficient information and in a manner that displays board maturity.



## 16.7. COMPANY SECRETARY

The company secretary has many statutory and best practice informed roles and responsibilities. However, in the context of this Board Evaluation Framework, the following responsibilities apply:

- 1) Provide secretarial and administrative support to the chairperson and lead independent director with the annual independent board evaluation process.
- 2) Manage effective liaison with the service provider and the DPE, to ensure efficient logistical arrangements and flow of information between the board and the other parties.
- 3) Provide the service provider and DPE representatives with relevant and timely information based on expressed needs.
- 4) Support the administrative and logistical arrangements for the engagements between the Minister and the board.

## 16.8. EXTERNAL SERVICE PROVIDERS

External service providers contracted to support the respective SOC boards with board evaluation services should:

- 1) Have a sound understanding of the Board Evaluation Framework and its minimum requirements and standards.
- 2) Have the ability to advise and tailor board evaluation processes and tools to adhere to the requirements of the board and the SOC.
- 3) Ensure the tailoring of existing methodologies, processes and tools to adhere with specified requirements.
- 4) Ensure high-quality and comprehensive reports that adhere to the minimum reporting requirements and standards.
- 5) Provide practical and well thought through recommendations to guide the board with the development of the evidence-based board improvement plan.

## 17. ADDITIONAL CONSIDERATIONS FOR INSTITUTIONALISATION OF THE BOARD EVALUATION FRAMEWORK

As discussed, the Board Evaluation Framework is only one part of a broader monitoring and evaluation system to achieve improved SOC board effectiveness in their governance and oversight role over the SOC.

There are a number of parallel enabling processes, outside the scope of this Board Evaluation Framework that may have an impact on the successful implementation of the Board Evaluation Framework.

These processes require further analysis, commitment and corrective or strengthened action, and

need to be addressed in parallel to the implementation of the Board Evaluation Framework.

### 17.1. ROTATION OF BOARD OF DIRECTORS

Board rotation is important in ensuring a balance between competence, experience and institutional memory; and in ensuring the injection of new fresh perspectives and thinking at board level. The board rotation discipline should adhere to legal and constitutional requirements, as specified in the MOI, where a maximum of a third of the board is rotated at any given time. It is envisaged that improved corporate governance practices will result in boards with longer tenure - increasingly board members may serve more than one term (to a maximum of three terms) on any given board.

While the approach to phased/staggered rotation plan is provided for in each MOI, it is recommended that it be further recorded in the shareholder compacts.

### 17.2. BOARD DIRECTOR PIPELINE

Internationally, a growing number of younger, first-time directors are being appointed to boards<sup>58</sup>. Many of these directors bring knowledge in fields, such as cyber security, artificial intelligence, machine learning and industry 4.0 technologies; while others have first-hand experience in digital transformation, organisational design, customer insight or social communication<sup>59</sup>. The demand for such cutting-edge expertise is likely to rise in the future, which supports the need for the DPE to develop a board director pipeline of potential first-time directors - young, talented professionals with unique sets of skills, yet inexperienced.

The board director pipeline development process should be based on the development of the knowledge and skills required from a director (e.g. financial literacy, corporate governance, risk management, legislative frameworks) and underpinned by principles of mentorship, where coaching support is made available to first-time directors when appointed to the boards. Experienced mentors have a significant impact on accelerating the impact of new board members.

It is recommended that first-time directors be placed on boards who have a majority of experienced board members, to balance and enable the board sufficiently.

### 17.3. BOARD INDUCTION AND ORIENTATION

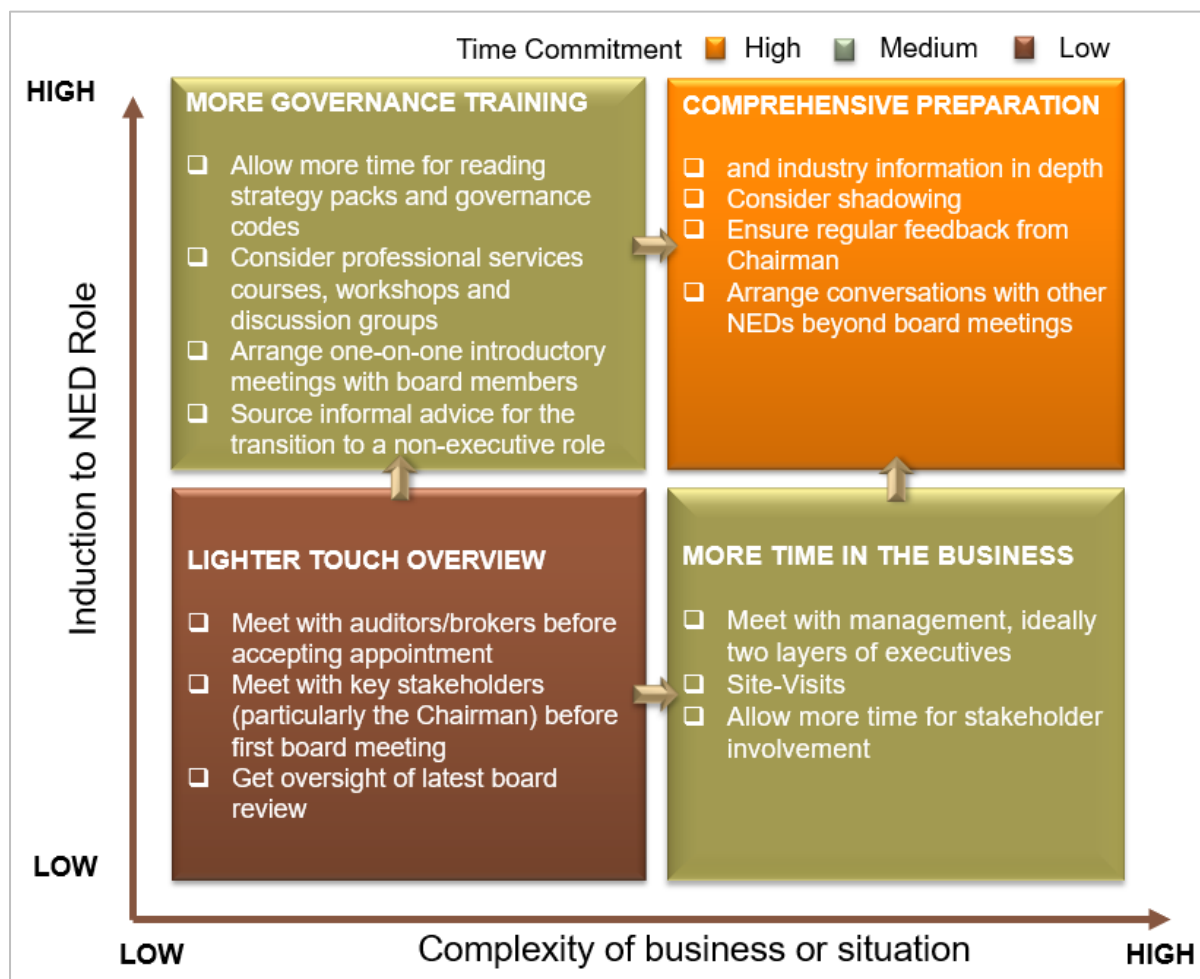
The aim of a board induction process is to orient directors into the role of a director and to shorten the time it takes to bring newly appointed directors up to speed. The best board orientation process is one where there is a clear framework, with a tailored application based on individual needs and experience, the complexity of the business and the board dynamics.

The following figure provides a possible guideline to tailor a board induction programme<sup>60</sup>:

<sup>58</sup> Spenser Stuart - Board Index US 2018 – First time directors represent 33% of S&P 500 and 32% of FTSE 150 boards

<sup>59</sup> Spenser Stuart – Finding the Right Fit: Assessing First-Time Candidates for Non-Executive Directors, 2019

<sup>60</sup> Russel Reynolds Associates – Accelerating Board Impact for New Directors, 2015

**Figure 16: Guidelines for tailoring a board induction programme**

Source: Russel Reynolds Associates – Accelerating Board Impact

## 17.4. SUCCESSION PLANNING

Succession plans for key positions in the board (e.g. chair, deputy chair/lead independent director, CEO) should be in place at all SOC to ensure the leadership of the organisation is never left in a vacuum.

The Nomination and Governance Committee should facilitate the development and implementation of board succession plans, in line with the broader people governance accountability and succession planning policy of the SOC.

## 17.5. DIRECTOR TRAINING AND ONGOING DEVELOPMENT

The professionalisation of boards is critical and aligns with the government-wide drive to professionalise the State. There is a need to consider the development of minimum standard for induction of directors, and this should be compulsory for all new board members.

It is recommended that all SOC implement annual board training and development initiatives in

line with the board improvement plan. The DPE may play a role in the development of a training and development framework and guideline for SOC boards.

## **17.6. STRENGTHENED ANNUAL BOARD PLANS AND BOARD AGENDAS**

Governance suffers most when boards spend too much time looking into the review mirror and not enough scanning the road ahead<sup>61</sup>. Most boards make provision for strategy development; however, there is a view that the proportion of time allocated to strategy in the annual board plans and agendas may need to be reviewed to ensure the optimal level of board involvement in strategy development.

There is typically a cyclical nature to board meeting topics each year – annual board plans and agendas, therefore, need to align with the cycles of strategic and corporate planning, governance and oversight, and performance monitoring, reporting and audits.

There is great value in developing a visual that gives leaders of the SOC a sense of where each board meeting fits into the larger context of the year.

## **17.7. STRENGTHENED RELATIONSHIP MANAGEMENT AND ROLE CLARITY**

The strength and quality of the relationship between the Executive Authority and the SOC boards, and, in turn, the relationship between the boards, and the CEOs and executive teams are critical for board effectiveness and organisational performance.

It is, therefore, imperative that the roles and responsibilities of the three parties are clearly understood and displayed in the day-to-day actions of leading the SOC. It is important that more time is provided for important robust yet collegiate discussions between the Minister, the boards and the CEOs and executive teams, to build strong, transparent and lasting relationships.

Overreach by one party into the role of the other should be prevented through open and frank communication between the parties in the best interest of the SOC. Upfront agreement must be reached between the Minister and the boards (shareholder compact) regarding lines of accountability, which must be clearly communicated to the CEOs (included in letter of appointment). ‘Power imbalances’ should be effectively managed through a display of high levels of emotional intelligence, and open and honest communication between the parties.

## **17.8. FLOW OF INFORMATION AND REPORTING**

There is a need to revisit the ‘flow of information’ architecture to improve efficiency and value-add for the SOC and the shareholder. The timing and content of reporting should contribute to quality improvement and value-adding information.

As indicated in this Framework, board progress against the board improvement plans must be included in the quarterly governance report. This will require an amendment to the Quarterly

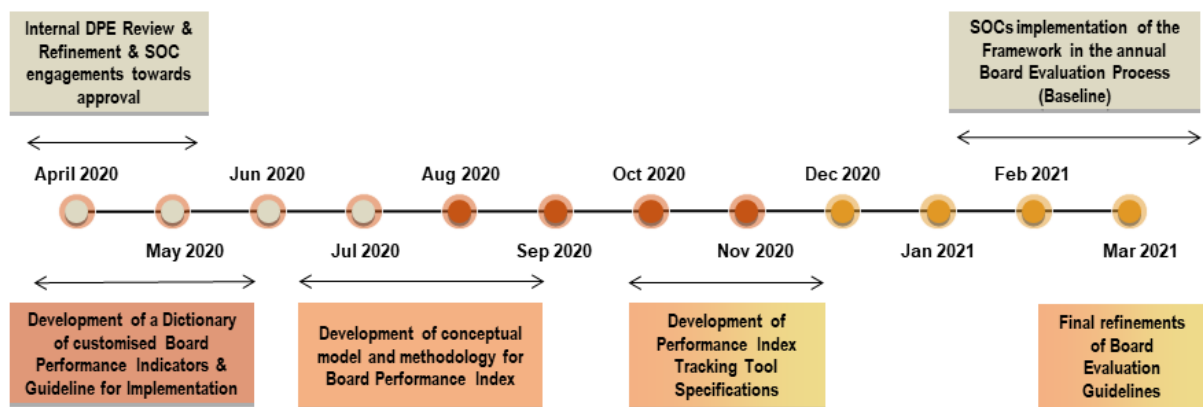
<sup>61</sup> McKinsey & Co – *Building a Forward Looking Board*, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/building-a-forward-looking-board>

## Reporting Guidelines.

## 18. HIGH-LEVEL ROADMAP AND TIMELINES FOR IMPLEMENTATION OF THE BOARD EVALUATION FRAMEWORK

The high-level roadmap below provides estimated timelines for the approval and institutionalisation of the Board Evaluation Framework. However, it is anticipated that these timelines may be refined depending on the date of approval of the Framework.

**Figure 17: High-level institutionalisation roadmap and timelines**



## 19. REVIEW OF THE BOARD EVALUATION FRAMEWORK

The Board Evaluation Framework will be reviewed on an annual basis in the first two years of implementation. Thereafter it will be reviewed as the legislative, policy and/or corporate governance frameworks change and require such review.

## 20. COMMENCEMENT DATE FOR THE BE FRAMEWORK

The Board Evaluation Framework takes effect on the date it is approved by the Minister of Public Enterprises.

## DOCUMENT REFERENCES AND CITATIONS

The following documentary sources and/or references were consulted in the development of the SOC Board Evaluation Framework, as cited in the document:

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## ANNEXURES TO THE BOARD EVALUATION FRAMEWORK

As referenced in Part B, the following Annexures are included with the Board Evaluation Framework:

- **Annexure A:** Matrix Reflecting the SOC Contribution to the Realisation of National Priorities
- **Annexure B:** Board Director Competency Framework

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**ANNEXURE A: MATRIX REFLECTING THE SOC CONTRIBUTION TO THE REALISATION OF NATIONAL PRIORITIES**

NATIONAL PRIORITIES FOR THE 6 <sup>th</sup> ADMINISTRATION									
<b>PRIORITY 1:</b> Building a capable, ethical and developmental State	<b>PRIORITY 2:</b> Economic transformation and job creation	<b>PRIORITY 3:</b> Education, skills and health	<b>PRIORITY 4:</b> Consolidating the social wage through reliable and quality basic services	<b>PRIORITY 5:</b> Spatial integration, human settlements and local government	<b>PRIORITY 6:</b> Social cohesion and safe communities	<b>PRIORITY 7:</b> A better Africa and the World			
MTSF PRIORITY 1: Building a capable, ethical and developmental State									
2024 IMPACT: Public value and trust, active citizenry and partnerships in society									
Outcome	Indicator	Intervention	Alexkor	Denel	Eskom	SA Express	SAA	Safcol	Transnet
Improved governance and accountability	Integrated M&E System for public sector governance and accountability	Strengthened governance system of SOCs	✓	✓	✓	✓	✓	✓	✓
Functional, efficient and integrated government	Percentage of qualified audits in national, provincial and public entities	Enhance productivity and functionality of public sector institutions in supporting people-centred service delivery	✓	✓	✓	✓	✓	✓	✓
		Modernise business processes in the public sector	✓	✓	✓	✓	✓	✓	✓

		Improve financial management capability in the public sector	✓	✓	✓	✓	✓	✓	✓
		Measures taken to eliminate wasteful, fruitless and irregular expenditure in the public service	✓	✓	✓	✓	✓	✓	✓
		Programme to prevent and fight corruption in government	✓	✓	✓	✓	✓	✓	✓
Professional, meritocratic and ethical public administration	Percentage compliance with Batho Pele principles by the public sector	Programme for building a professional public administration	✓	✓	✓	✓	✓	✓	✓
		Institutionalise professional code of ethics in public administration	✓	✓	✓	✓	✓	✓	✓
MTSF PRIORITY 1 CROSS-CUTTING AREAS: Mainstreaming of gender, youth and disability, empowerment and development institutionalised									
2024 IMPACT: A gender, youth and disability responsive public service									
Outcome	Indicator	Intervention	Alexkor	Denel	Eskom	SA Express	SAA	Safcol	Transnet
Mainstreaming of gender, youth and disability, empowerment and development institutionalised	Level of mainstreaming across public service and through the services delivered by sex, gender, age and disability	Monitoring of mainstreaming of gender, empowerment and development of youth and persons with disabilities programmes	✓	✓	✓	✓	✓	✓	✓

NATIONAL PRIORITIES FOR THE 6 <sup>th</sup> ADMINISTRATION									
<b>PRIORITY 1:</b> Building a capable, ethical and developmental State	<b>PRIORITY 2:</b> Economic transformation and job creation	<b>PRIORITY 3:</b> Education, skills and health	<b>PRIORITY 4:</b> Consolidating the social wage through reliable and quality basic services	<b>PRIORITY 5:</b> Spatial integration, human settlements and local government	<b>PRIORITY 6:</b> Social cohesion and safe communities	<b>PRIORITY 7:</b> A better Africa and the World			
MTSF PRIORITY 2: Economic transformation and job creation									
2024 IMPACT: Unemployment reduced to 20-24% with 2 million new jobs, especially for youth, economic growth of 2*3% and growth in levels of investment to 23% of GDP									
Outcome	Indicator	Intervention	Alexkor	Denel	Eskom	SA Express	SAA	Safcol	Transnet
More decent jobs created and sustained, with youth, women and persons with disabilities prioritised	Unemployment rate	Create jobs through Job Summit commitments, Operation Phakisa and other public sector employment programmes	✓	✓	✓	✓	✓	✓	✓
Reindustrialisation of the economy	Percentage growth of exports in national priority sectors (automotive, agriculture and agro-processing, CTLF, chemicals, gas, steel and	Create a conducive environment that enables national priority sectors to support industrialisation and localisation, leading to increased exports, employment, and youth and women owned SMME participation	✓	✓	✓	✓	✓	✓	✓



	metal fabrication, tourism, ICT, defence, health, mining, renewables, green economy, oceans economy, creative industries)	Support localisation and industrialisation through government procurement	✓	✓	✓	✓	✓	✓	✓
Secure supply of energy	Increase infrastructure investment by public and private sectors	Improve energy availability factor to ensure constant supply of electricity			✓				
		Increase reserve margin to counter load-shedding			✓				
		Explore embedded generation options to augment Eskom capacity			✓				
		Separations and unbundling of Eskom to eliminate cross-subsidisation and improve efficiency			✓				
		Diversify energy sources by implementing the approved Integrated Resource Plan 2019			✓				
Increase in access to affordable and reliable transport systems	Increase infrastructure investment by	Increase competitiveness and access to transport modal networks through effective regulation							✓

	public and private sectors	Implement comprehensive rail modernisation and upgrade programme							✓
		Finalise Road Freight Strategy Integrated Implementation Plan to facilitate transition from road freight to rail and the participation of private sector							✓
		Reduce costs for priority sectors by increasing the efficiency of ports							✓

### NATIONAL PRIORITIES FOR THE 6<sup>th</sup> ADMINISTRATION

<b>PRIORITY 1:</b> Building a capable, ethical and developmental State	<b>PRIORITY 2:</b> Economic transformation and job creation	<b>PRIORITY 3:</b> Education, skills and health	<b>PRIORITY 4:</b> Consolidating the social wage through reliable and quality basic services	<b>PRIORITY 5:</b> Spatial integration, human settlements and local government	<b>PRIORITY 6:</b> Social cohesion and safe communities	<b>PRIORITY 7:</b> A better Africa and the World			
<b>MTSF PRIORITY 3: Education, skills and health</b>									
<b>2024 IMPACT: Improved economic participation and social development</b>									
<b>Outcome</b>	<b>Indicator</b>	<b>Intervention</b>	<b>Alexkor</b>	<b>Denel</b>	<b>Eskom</b>	<b>SA Express</b>	<b>SAA</b>	<b>Safcol</b>	<b>Transnet</b>
A responsive PSET system	Percentage of TVET college lecturing staff appropriately	Industry exposure for lecturers and students (especially in TVET)	✓	✓	✓	✓	✓	✓	✓

	placed in industry or in exchange programmes								
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### NATIONAL PRIORITIES FOR THE 6<sup>th</sup> ADMINISTRATION

<b>PRIORITY 1:</b> Building a capable, ethical and developmental State	<b>PRIORITY 2:</b> Economic transformation and job creation	<b>PRIORITY 3:</b> Education, skills and health	<b>PRIORITY 4:</b> Consolidating the social wage through reliable and quality basic services	<b>PRIORITY 5:</b> Spatial integration, human settlements and local government	<b>PRIORITY 6:</b> Social cohesion and safe communities	<b>PRIORITY 7:</b> A better Africa and the World			
<b>MTSF PRIORITY 5: Spatial integration, human settlements and local government</b>									
<b>2024 IMPACT: Natural resources are managed, and sectors and municipalities are able to respond to the impact of climate change</b>									
<b>Outcome</b>	<b>Indicator</b>	<b>Intervention</b>	<b>Alexkor</b>	<b>Denel</b>	<b>Eskom</b>	<b>SA Express</b>	<b>SAA</b>	<b>Safcol</b>	<b>Transnet</b>
Greenhouse gas emission reduction (mitigation)	TBC	Implement 4 sectors GHG emission reduction implementation plan (contribution from the largest emitters of GHG)			✓				
Just transition to low carbon economy (mitigation)	Transition plans for high carbon emitting sectors (energy, transport, agriculture and waste to low carbon economy) developed by 2024	4 plans finalised (energy, transport, agriculture, waste)			✓				✓

	Number of sector plans implemented for vulnerable sectors to reduce vulnerability to risks associated with climate change	Implementation of sector plans to reduce vulnerability to risks associated with climate change			✓				
		Transition plans for high carbon emitting sectors finalised (energy, transport, agriculture, waste)			✓				✓

**2024 IMPACT: Achieving spatial transformation through improved integrated settlement development and linking job opportunities and housing opportunities**

Outcome	Indicator	Intervention	Alexkor	Denel	Eskom	SA Express	SAA	Safcol	Transnet
Spatial transformation through multi-programme integration in priority development areas	No. of priority development areas (PDAs) invested in	Eskom to ensure access to electricity in neighbourhoods and settlements			✓				

**NATIONAL PRIORITIES FOR THE 6<sup>th</sup> ADMINISTRATION**

<b>PRIORITY 1:</b> Building a capable, ethical and developmental State	<b>PRIORITY 2:</b> Economic transformation and job creation	<b>PRIORITY 3:</b> Education, skills and health	<b>PRIORITY 4:</b> Consolidating the social wage through reliable and quality basic services	<b>PRIORITY 5:</b> Spatial integration, human settlements and local government	<b>PRIORITY 6:</b> Social cohesion and safe communities	<b>PRIORITY 7:</b> A better Africa and the World
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**MTSF PRIORITY 6: A better Africa and the World**

2024 IMPACT: A better South Africa									
Outcome	Indicator	Intervention	Alexkor	Denel	Eskom	SA Express	SAA	Safcol	Transnet
Growth in tourism sector resulting in economic growth	Percentage increase in the value of international tourist spend	Develop and implement a destination brand strategy to promote South Africa as a preferred tourism destination				✓	✓		
		Promote South Africa as a preferred tourism destination				✓	✓		

## ANNEXURE B: BOARD DIRECTOR COMPETENCY FRAMEWORK

Area of Competence		Knowledge and Skills	Elements / Components
<b>Industry</b>	<b>Industry:</b> Experience in and knowledge of the industry in which the SOC operates	<ul style="list-style-type: none"> <li>Industry experience and knowledge</li> <li>Business acumen</li> <li>Organisational understanding</li> </ul>	<ul style="list-style-type: none"> <li>Industry specific environments, competitors, regulators, providers, operations, opportunities, advancements, risks, etc.</li> </ul>
<b>Functional and Governance</b>	<b>Corporate Governance:</b> Contribute to and function as a board member within the appropriate governance structures, and cognisant of position of trust	<ul style="list-style-type: none"> <li>Knowledge of corporate governance accountability of directors</li> </ul>	<ul style="list-style-type: none"> <li>Corporate governance development and evolution, theories, purpose and benefits, application, linkage with law, independence and conflicts</li> <li>Governance structures (board, board committees, company secretary, shareholders, group companies) and delegation frameworks</li> <li>Responsible investing</li> </ul>
	<b>Ethical Leadership:</b> Lead the company effectively and ethically in the long-term interest of all its stakeholders	<ul style="list-style-type: none"> <li>Leadership</li> <li>Positive values</li> <li>Emotional intelligence</li> </ul>	<ul style="list-style-type: none"> <li>Leadership and corporate citizenship</li> <li>Ethical values underpinning corporate governance (responsibility, accountability, fairness, transparency)</li> <li>Moral duties (conscience, commitment, courage, competence)</li> <li>Sustainability</li> <li>Stakeholder inclusivity</li> </ul>
	<b>Director Roles and Responsibilities:</b>	<ul style="list-style-type: none"> <li>Understanding and experience in fulfilling a director's legal duties</li> </ul>	<ul style="list-style-type: none"> <li>Common law, legislation, including Companies Act, Competition Act and other related legislation and codes</li> </ul>



Area of Competence		Knowledge and Skills	Elements / Components
	Act as director within the confines of the law		
	<b>Strategic:</b> Contribute meaningfully and effectively to strategy - setting and implementation thereof	<ul style="list-style-type: none"> <li>▪ Visionary leadership</li> <li>▪ Strategic planning, development and implementation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Business models and value creation</li> <li>▪ Strategic risks and opportunities</li> <li>▪ Considerations of wider environment, including stakeholder expectations</li> <li>▪ Impact of strategy on society and natural environment</li> </ul>
	<b>Governance of Ethics Management:</b> Oversee the management of ethics within the company	<ul style="list-style-type: none"> <li>▪ Ethical values</li> <li>▪ Risk management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ethics risk and opportunity profile</li> <li>▪ Policies</li> <li>▪ Risk management</li> <li>▪ Monitoring</li> <li>▪ Reward</li> <li>▪ Disclosure</li> </ul>
	<b>People Governance:</b> Oversee the remuneration policy and its implementation	<ul style="list-style-type: none"> <li>▪ Human resources management</li> <li>▪ Remuneration management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Role of remuneration committees</li> <li>▪ Components of remuneration</li> <li>▪ Linkage with performance</li> <li>▪ Ethical dimension of remuneration</li> <li>▪ Policy</li> <li>▪ Measurement</li> <li>▪ Reporting</li> <li>▪ Shareholders' say on pay</li> </ul>

Area of Competence		Knowledge and Skills	Elements / Components
	<b>Audit Committees' Duties and Functioning:</b> Serve as an effective Audit Committee member and/or to relate the functions of the board to that of the Audit Committee	<ul style="list-style-type: none"> <li>Accounting</li> <li>Financial literacy</li> <li>Auditing</li> </ul>	<ul style="list-style-type: none"> <li>Legal requirements for audit committees</li> <li>King IV requirements</li> <li>Skills, role in relation to other board committees, especially risk, sustainability and social and ethics committees</li> <li>Oversight of external audit, internal audit and finance function</li> <li>Disclosure</li> </ul>
	<b>Combined Assurance Model:</b> Act in a manner that demonstrates understanding of the responsibilities of various assurance providers, and how these are leveraged to contribute to the working of the board and its accountability to stakeholders	<ul style="list-style-type: none"> <li>Knowledge of assurance functions and frameworks</li> </ul>	<ul style="list-style-type: none"> <li>External audit</li> <li>Management reporting</li> <li>Internal audit and internal controls</li> <li>Risk management framework</li> </ul>
	<b>Financial Governance:</b> Interrogate financial statements and to conclude on financial performance of the company	<ul style="list-style-type: none"> <li>Financial literacy</li> <li>Financial management</li> </ul>	<ul style="list-style-type: none"> <li>Interpretation and sound working knowledge of financial requirements and information</li> </ul>
	<b>Risk Governance:</b> Oversee risk management policy formation and oversight of the implementation thereof	<ul style="list-style-type: none"> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>System and process of risk management, risk tolerance and appetite</li> <li>Role of Risk Committee</li> <li>Implementation and monitoring of risk management plan</li> <li>Risk assessments</li> </ul>

Area of Competence		Knowledge and Skills	Elements / Components
			<ul style="list-style-type: none"> <li>▪ Risk responses</li> <li>▪ Assurance and disclosure</li> </ul>
	<b>Information and Technology Governance:</b> Oversee information and technology policy formation and oversight of the implementation thereof	<ul style="list-style-type: none"> <li>▪ Knowledge or experience regarding the strategic advantage of using information and technology as strategic enablers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Charters and policies</li> <li>▪ Information and technology governance framework</li> <li>▪ Information and technological risk management</li> <li>▪ Investment and expenditure</li> <li>▪ Protection of information and technology assets</li> <li>▪ Assurance and disclosure</li> </ul>
	<b>Compliance Governance:</b> Oversee compliance management policy formation and oversight of the implementation thereof	<ul style="list-style-type: none"> <li>▪ Understanding of legislative frameworks governing the SOC</li> <li>▪ Legal literacy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Compliance universe</li> <li>▪ Compliance framework and process</li> <li>▪ Integration of compliance into risk management process</li> </ul>
	<b>Stakeholder Relations' Governance:</b> Oversee stakeholder policy formation and oversight of the implementation thereof	<ul style="list-style-type: none"> <li>▪ Development, analysis and management of partnerships and stakeholder relationships</li> <li>▪ Emotional intelligence</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reputational risk</li> <li>▪ Identification of stakeholders</li> <li>▪ Stakeholder inclusivity</li> <li>▪ Engagement with stakeholders</li> <li>▪ Alternate dispute resolution (ADR)</li> </ul>
	<b>Integrated Reporting:</b> Oversee integrated reporting	<ul style="list-style-type: none"> <li>▪ Understanding of integrated reporting requirements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Nature of integrated reporting</li> <li>▪ Frameworks and principles</li> <li>▪ Assurance models and implementation</li> </ul>
	<b>Business Development and Management:</b>	<ul style="list-style-type: none"> <li>▪ Business judgement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Anticipation of risks</li> </ul>

Area of Competence		Knowledge and Skills	Elements / Components
	Respond to business challenges in a creative and constructive manner	<ul style="list-style-type: none"> <li>Strategic marketing</li> </ul>	<ul style="list-style-type: none"> <li>Managing and dealing with risks</li> <li>Recognition of business opportunities</li> <li>Anticipating competitor action</li> <li>Setting priorities and resource support</li> </ul>
	<b>Independent Decision-making:</b> Gather and analyse information in decision-making by applying logical thinking	<ul style="list-style-type: none"> <li>Analytical ability</li> <li>Problem solving ability</li> <li>Decision-making</li> <li>Scenario planning</li> <li>Understanding of the SOC</li> </ul>	<ul style="list-style-type: none"> <li>Systems thinking</li> <li>Organisational knowledge</li> <li>Problem identification</li> <li>Problem analysis and solving</li> </ul>
<b>Behavioural</b>	Act in a manner that demonstrates self-knowledge and self-awareness	<ul style="list-style-type: none"> <li>Self-awareness</li> <li>Emotional intelligence</li> </ul>	<ul style="list-style-type: none"> <li>Emotional self-awareness</li> <li>Knowing strengths and limitations</li> <li>Self-confidence</li> </ul>
	Manage self in a manner that contributes to the activities of the board	<ul style="list-style-type: none"> <li>Self-management</li> <li>Emotional intelligence</li> </ul>	<ul style="list-style-type: none"> <li>Emotional self-control</li> <li>Transparency adaptability</li> <li>Achievement</li> <li>Positive demeanour</li> </ul>
	Adapt to environmental needs	<ul style="list-style-type: none"> <li>Social awareness</li> <li>Emotional intelligence</li> </ul>	<ul style="list-style-type: none"> <li>Understanding others' perspectives and taking an active interest in their concerns</li> <li>Reading the currents, decision networks and politics at the organisational level</li> <li>Recognising and meeting staff, client and member needs</li> </ul>

Area of Competence		Knowledge and Skills	Elements / Components
	Interact with fellow board members and management in a manner that is beneficial to the company	<ul style="list-style-type: none"> <li>▪ Relationship management</li> <li>▪ Emotional intelligence</li> </ul>	<ul style="list-style-type: none"> <li>▪ Inspirational leadership</li> <li>▪ Influence and persuasion</li> <li>▪ Developing others</li> <li>▪ Change catalyst</li> <li>▪ Conflict management</li> <li>▪ Building relationships</li> <li>▪ Teamwork and collaboration</li> </ul>

## ANNEXURE C: BOARD PERFORMANCE EVALUATION RATING TEMPLATE

KING IV PRINCIPLE		REGULATIONS	KEY FINDINGS	EVIDENCE	1	2	3	4
1	Ethical and Effective Leadership.							
2	Organisational Ethics and Culture							
3	Responsible Corporate Citizen.							
4	Inseparable elements of the value creation process.							
5	Reporting enables stakeholders to make informed assessments of performance and prospects.							
6	Focal point and custodian of corporate governance in the organisation.							
7	Board Composition and balance of power							



KING IV PRINCIPLE		REGULATIONS	KEY FINDINGS	EVIDENCE	1	2	3	4
8	Governance Structures, balance of power - effective discharge of its duties.							
9	Board Evaluation							
10	Appointment of, and delegation to, management							
11	Governance of Risk							
12	Governance of Information and Technology							
13	Governance of Compliance							
14	Governance of Remuneration							
15	Assurance Services - Effective Controls – Integrity of Information							
16	Stakeholder Inclusivity							
OVERALL BOARD PERFORMANCE RATING								

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