



Ratings Afrika

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GOVERNANCE SURVEY 2009: SOUTH AFRICA

Abstract

The survey is of all JSE-listed and some 159 important unlisted South African entities who were requested to position themselves on the Ratings Afrika scale of governance soundness. The response was at a level that cannot be described as successful in representing the perceived soundness of corporate and municipal governance, which is cause for concern. Some possible reasons for this are discussed, and response rates are specified which show a far better level of response from Top 40 JSE Index companies, and those in the FinWeek Top 100. The process is described, as well as a procedural difference compared with 2008. Comment is made about the pressure on compliance officers of the proliferation of codes, regulations, legislative changes, bureaucracy, charters and protocols, with emphasis on measuring the substance of governance soundness rather than the form of the structures that are believed to be able to produce this.

This survey of participants' own views as to the soundness of their corporate (and municipal) governance is dated effective 1 September 2009. The survey was sent to all companies listed on the JSE Stock Exchange of South Africa, as well as to a selection of non-listed entities that Ratings Afrika regards as vitally important in a corporate and municipal governance sense. The selection is not intended to imply that there may not be further entities that are worthy of inclusion.

Ratings Afrika is willing to consider suggestions from users as to which new categories or new individual entities it should consider for inclusion in the survey. In this vein an e-mail message may be sent to Survey2010@ratingsafrika.com

Rationale

The thinking behind the survey is based on two facts: (a) the concept of measuring the soundness of governance remains foreign to many people. It seems that there remains a view that an entity either "has", or does "not have" governance; while informed observers are aware that the levels of governance, and the soundness thereof, differ markedly from entity to entity; and (b) it is possible, given the plain-language scale that Ratings Afrika applies, for an informed person to position an entity on the scale very quickly.

Results

The survey cannot be considered successful in the level of response that it has generated; in fact there also has been a decline since 2008. The response is at a level similar to a casual market survey response, and given the seriousness of the topic this is cause for concern.

There are a number of reasons that may lie behind this low level of response.

First, Ratings Afrika may not have the necessary standing in the eyes of the persons who were targeted at the entities covered in this survey.

Second, the entity may have a policy of not responding to any surveys, or only to those that it has preselected.

Third, the effort required to complete the survey (it takes less than 5 minutes, including the sending of the response) may be perceived to be too onerous.

Fourth, there may be unwillingness to answer the main question, namely “Where on the scale do you place your entity’s consideration of all stakeholders?” – and this unwillingness may differ in underlying reasons from indifference, lack of knowledge about the entity, through irritation and displeasure at being asked, towards discomfort at the question itself.

Fifth, the person targeted may have passed the request on to someone else who failed to respond.

Sixth, there may have been a technical problem in getting the e-mailed message to the intended recipient.

Seventh, the recipient ignored the request for one or more of a number of reasons other than those set out before.

Ratings Afrika has experienced all seven reasons for either a “Declined” or a “No response” result.

Our system allows us to determine whether our e-mail message has been read by someone. We also track every e-mail message sent and we resend those that are returned as undeliverable. Lastly we track every nil response by sending a second or third message to remind the recipient of the deadline and highlight the nil response.

In a simple listing of response rates, the following emerges:

(2009)	Responded	Declined	No response
Overall (563)	8,7%	3,4%	87,9%
Listed only	9,9%	3,5%	86,6%
Unlisted only	5,7%	3,1%	91,2%
Unlisted - private sector	3,7%	2,4%	93,9%
Unlisted - public sector	7,8%	3,9%	88,3%
Listed Top 100	20,0%	3,0%	77,0%
Listed Top 40	29,3%	2,4%	68,3%

The Top 100 is a list determined by market capitalisation as published by FinWeek in March 2009 (based on 31 December 2008). The Top 40 is determined by actuarial method as applied by the JSE Securities Exchange during September 2009.

The entities in these two categories show markedly different response rates from the other groupings. Either their awareness of public scrutiny regarding their handling of corporate governance issues, or their specific focus on these issues as part of the achievement of success, seems to lead to a greater willingness to participate.

Noticeably low response rates are surprising in sectors that could be expected to have a high level of awareness, such as the largest law firms (0,0% response), audit firms (10,0% response) and asset managers (0,0% response).

Compared with 2008, the response rates show:

	2008	2009
Overall (563)	11,4%	8,7%
Listed only	14,6%	9,9%
Unlisted only	3,1%	5,7%
Unlisted - private sector	2,4%	3,7%
Unlisted - public sector	3,9%	7,8%
Listed Top 100	29,0%	20,0%
Listed Top 40	39,0%	29,3%

There was a procedural change within the survey between 2008 and 2009 that may explain the declines. During the 2008 survey Ratings Afrika felt it necessary to inform the chairpersons of the boards or councils that direct the entities involved, by personal letter if their entities had not responded. This was to avoid errors and possible embarrassment to the entities once the survey results were published. The reaction from some chairpersons was negative, in some instances even crass. We thus decided not to repeat this fourth-stage prompting in 2009.

Procedure

The survey forms were sent to the person at each entity who could reasonably be expected to be aware of the need for sound corporate or municipal governance, and we requested that the forms be forwarded to the correct person if we had erred. In many instances the entity's statutory secretary or the chief financial officer was the initial recipient. Every e-mail address was checked for validity before the survey form was issued, and all responses and reported errors were processed to ensure correctness. Thus there were in all cases at least three communication contacts made.

Analysing the results

Ratings Afrika prides itself on balance and fairness, and is of the view that the quality of analysis is the fundamental determinant of reliability in opinions such as those we issue.

We are of the opinion that closer analysis of these survey results is inappropriate for a number of reasons, largely because of the low level of response. There may well be minor tendencies apparent, as well as the overall aspect of apathy; but it would be dangerous to infer from these results that the reasons for the low response are necessarily apathy-based. Any deduction from the results is best based upon comparing the response or response levels of one entity from year to year, and then making a direct approach to the entity to determine the reason.

The proliferation of rules, codes, regulations, new legislation, bureaucratic requirements, internal procedure manuals, charters and protocols have a stark practical effect on those who have to ensure compliance. This is precisely why Ratings Afrika seeks to play a role in measuring the substance of governance soundness, rather than the form of a document with a check box for every action or inaction.


The survey documentation

The forms used in the survey (one for listed entities and one for those not listed) are attached as appendices. It is clear from either form what the different levels of governance soundness categories (95+% [Undoubted soundness], 85+% [Extremely sound], 70+% [Very sound] and so forth) indicate.


The future

Ratings Afrika plans to continue the survey process into the future. The next survey date is 1 September 2010.

Appendix 1: Survey Form for Listed Entities

 <h1 style="margin-left: 20px;">Ratings Afrika</h1>			
<p>This e-mail is sent to you because we are of the view that much of the responsibility for reporting on corporate governance rests on your shoulders. We have also done our best to ensure that you are the correct recipient of this message.</p> <p>If that is still not in fact the case, please forward this e-mail to the correct person.</p> <p>As has now become clear, all entities have perceptions to manage in respect of governance - whether corporate, public service or purely societal. We thus invite you to participate in the Ratings Afrika 2009 Corporate Governance Survey. Ratings Afrika provides the annual survey as a public service. There is no cost involved in participation or in viewing the completed result.</p> <p>Please note that participation remains voluntary, and the level of soundness is yours to select. Ratings Afrika does not make any changes or add any comments to an individual selection.</p> <p>Selecting a level is a self-test and indicates to the user what soundness of governance may be expected of the entity. To the extent that this is different from previous years, the user may deduce improvement (or in some cases, a decline).</p> <p>The level of governance is independent of codes like King II or King III, the Combined Code or any legal requirement.</p> <p>The survey takes only 5 minutes of your time. To complete it, you need to:</p> <ul style="list-style-type: none"> • fill in the contact details of the 4 persons indicated and the 3 lines of detail on the company; • then please look at the scale that Ratings Afrika uses to gauge soundness of corporate governance, and select the level that you believe is appropriate for your organisation as at 1 September 2009, by clicking on it. <p>Click on "submit" to send the form back to us.</p> <p>We appreciate that in many cases you may wish to first consult internally; and for this reason we are only requesting your response by 18 September 2009.</p> <p>Yes, we all hate responding to surveys! The difference is that this one may prove extremely valuable to your organisation and its image in the business or general community.</p> <p>If for some reason you do NOT wish to participate in this survey, please click on that option below (you will then also avoid being pressed by us again for a response).</p> <p>Should you have any survey-related questions, you're more than welcome to contact us on Survey2009@ratingsafrika.com</p> <p>Regards The Survey 2009 team at Ratings Afrika Survey2009@ratingsafrika.com</p>			
Please provide us with:			
Registered name of the listed company:	<input type="text"/>		
Registration number:	<input type="text"/>		
Share code (3 letters) for ordinary shares:	<input type="text"/>		
Title and name of chairperson as at 1/9/2009:	<input type="text"/>		
Title and name of CEO/MD as at 1/9/2009:	<input type="text"/>		
Title and name of company secretary as at 1/9/2009:	<input type="text"/>		
Title and name of the person who selected the level below:	<input type="text"/>		
Opting out of participation in the survey:			
<input type="radio"/>	We do not wish to participate in this survey		
Or, please click the soundness level you regard as appropriate for your organisation as at 1/9/2009:			
Select	% Level	Soundness	Definition
<input type="radio"/>	95+	Soundness undoubted	Approaches, processes and systems are beyond reproach and fine-tuned to achieve appropriate goals without fail. Stakeholders have experienced that their interests are considered paramount throughout, and there is no discernible doubt for the future.
<input type="radio"/>	85+	Extremely sound	Approaches, processes and systems are extremely carefully planned and designed with intent to achieve appropriate goals almost without fail; the application is of an extremely high standard and has become a culture. Stakeholders are assured beyond reasonable doubt that their interests are judged extremely important in every case.
<input type="radio"/>	70+	Very sound	Approaches, processes and systems are very well planned and designed with intent to achieve appropriate goals consistently; the application is of a very high standard and has become almost second nature. Stakeholders have the assurance that their interests are judged very important in almost all cases.
<input type="radio"/>	50+	Sound	Approaches, processes and systems are well planned and designed with intent to achieve appropriate goals; application is of a high standard and diligence. Stakeholders have the assurance that their interests are judged important in the majority of cases.
<input type="radio"/>	35+	Fairly sound	Approaches, processes and systems are fairly well planned and designed with intent to achieve goals; application is of a fairly good standard. Stakeholders have a reasonable assurance that their interests are judged fairly important in many instances.
<input type="radio"/>	20+	Partially sound	Approaches, processes and systems are less well planned and designed; application is still of a somewhat low standard. Stakeholders have some assurance that their interests are judged worthy of consideration over time.
<input type="radio"/>	5+	Unsound	Approaches, processes and systems are not well planned and designed; application is of a doubtful standard. Stakeholders have no assurance that their interests are judged worthy of consideration.
			<input type="button" value="Submit"/>

Appendix 2: Survey Form for Unlisted Entities

			
<p>This e-mail is sent to you because we are of the view that much of the responsibility for reporting on corporate governance rests on your shoulders. We have also done our best to ensure that you are the correct recipient of this message.</p> <p>If that is still not in fact the case, please forward this e-mail to the correct person.</p> <p>As has now become clear, all entities have perceptions to manage in respect of governance - whether corporate, public service or purely societal. We thus invite you to participate in the Ratings Afrika 2009 Corporate Governance Survey. Ratings Afrika provides the annual survey as a public service. There is no cost involved in participation or in viewing the completed result.</p> <p>Please note that participation remains voluntary, and the level of soundness is yours to select. Ratings Afrika does not make any changes or add any comments to an individual selection.</p> <p>Selecting a level is a self-test and indicates to the user what soundness of governance may be expected of the entity. To the extent that this is different from previous years, the user may deduce improvement (or in some cases, a decline).</p> <p>The level of governance is independent of codes like King II or King III, the Combined Code or any legal requirement.</p> <p>The survey takes only 5 minutes of your time. To complete it, you need to:</p> <ul style="list-style-type: none"> • fill in the contact details of the 4 persons indicated and the 3 lines of detail on the company; • then please look at the scale that Ratings Afrika uses to gauge soundness of corporate governance, and select the level that you believe is appropriate for your organisation as at 1 September 2009, by clicking on it. <p>Click on "submit" to send the form back to us.</p> <p>We appreciate that in many cases you may wish to first consult internally; and for this reason we are only requesting your response by 18 September 2009.</p> <p>Yes, we all hate responding to surveys! The difference is that this one may prove extremely valuable to your organisation and its image in the business or general community.</p> <p>If for some reason you do NOT wish to participate in this survey, please click on that option below (you will then also avoid being pressed by us again for a response).</p> <p>Should you have any survey-related questions, you're more than welcome to contact us on Survey2009@ratingsafrika.com</p> <p>Regards The Survey 2009 team at Ratings Afrika Survey2009@ratingsafrika.com</p>			
Please provide us with:			
Registered or official name of the entity:	[]		
Registration number (companies only):	[]		
Title and name of chairperson as at 1/9/2009:	[]		
Title and name of CEO/MD as at 1/9/2009:	[]		
Title and name of company secretary as at 1/9/2009:	[]		
Title and name of the person who selected the level below:	[]		
Opting out of participation in the survey:			
<input checked="" type="checkbox"/> (X)	We do not wish to participate in this survey		
Or, please click the soundness level you regard as appropriate for your organisation as at 1/9/2009:			
Select	% Level	Soundness	Definition
()	95+	Soundness undoubted	Approaches, processes and systems are beyond reproach and fine-tuned to achieve appropriate goals without fail. Stakeholders have experienced that their interests are considered paramount throughout, and there is no discernible doubt for the future.
()	85+	Extremely sound	Approaches, processes and systems are extremely carefully planned and designed with intent to achieve appropriate goals almost without fail; the application is of an extremely high standard and has become a culture. Stakeholders are assured beyond reasonable doubt that their interests are judged extremely important in every case.
()	70+	Very sound	Approaches, processes and systems are very well planned and designed with intent to achieve appropriate goals consistently; the application is of a very high standard and has become almost second nature. Stakeholders have the assurance that their interests are judged very important in almost all cases.
()	50+	Sound	Approaches, processes and systems are well planned and designed with intent to achieve appropriate goals; application is of a high standard and diligence. Stakeholders have the assurance that their interests are judged important in the majority of cases.
()	35+	Fairly sound	Approaches, processes and systems are fairly well planned and designed with intent to achieve goals; application is of a fairly good standard. Stakeholders have a reasonable assurance that their interests are judged fairly important in many instances.
()	20+	Partially sound	Approaches, processes and systems are less well planned and designed; application is still of a somewhat low standard. Stakeholders have some assurance that their interests are judged worthy of consideration over time.
()	5+	Unsound	Approaches, processes and systems are not well planned and designed; application is of a doubtful standard. Stakeholders have no assurance that their interests are judged worthy of consideration.
			[Submit]