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Reflecting on the key Governance priorities of leading organisations

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Introduction

As the global community continues to adapt to an ever-evolving landscape within which we currently operate, fraught with increasing economic and geopolitical uncertainty, the highly dynamic, and rapidly evolving Artificial Intelligence ecosystem and the multiple pressure points emanating from the shift from voluntary to authoritative ESG and climate disclosure requirements, organisations are recognising the importance of ensuring the implementation of fit-for-purpose and effective governance structures and mechanisms as key enablers to organisational performance.

In our experience working with various organisations across multiple industries and jurisdictions, supporting the enhancement of governance at both a Board and Executive governance level, we see a number of key governance priorities that leading organisations are considering and prioritising in driving governance effectiveness at all levels across the organisation. In the South African context, the imminent release of King V represents an opportunity for Boards and Executives to re-imagine governance structures and mechanisms – and consider the extent to which practices of leading organisations should be leveraged – in a manner that is appropriate for the organisation – in order to achieve the outcomes of good governance: ***an ethical culture, performance, conformance, and legitimacy***.

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Executive summary

1) The evolving Governance Model and enhancement of the Governance Framework

- **The status quo:** Too often, the organisation's Governance Model is outdated and does not align to key shifts in the business and the environment within which it operates. As such, duplication and redundancy are common challenges with respect to key governance structures across the organisation.
- **Governance priority:** The formalisation of a Board-approved Governance Framework as an enabler in driving effective governance principles and practices.

2) Accelerating Executive Effectiveness

- **The status quo:** The criticality of appropriately designing the Governance Model at a Board level is well recognised. However, this intentionality is not typically applied in the design of the Executive Governance Model.
- **Governance priority:** The shift towards a more intentionally designed Executive Governance Model that takes into account key strategic objectives, governance structures required to support these objectives and a structure that aligns to the Board/ Corporate Governance Model.

3) An emphasis on Subsidiary Governance and alignment on the role of Subsidiary Boards

- **The status quo:** The risk exposure for Holding Companies with respect to key subsidiaries as well as the direct impact that the performance of key subsidiaries has on the bottom line of the Group requires that Holding Companies clearly articulate expectations and non-negotiable governance requirements for all entities/structures across the Group of Companies
- **Governance priority:** Formal articulation of a Subsidiary Governance Framework that serves to provide clear direction to Subsidiary Boards – e.g. setting the tone for ethical leadership and an ethical culture and reinforcing the non-negotiable governance philosophy and governance requirements that should guide subsidiary Board oversight.

4) A fit-for-purpose Board Reporting Framework

- **The status quo:** The emphasis on reporting requirements has often focused on external integrated reporting requirements – with limited attention on the articulation and setting of expectations on the level and quality of reporting by Management to the Board.
- **Governance priority:** The approval of a Board Reporting Framework, which sets out the strategic requirements and expectations regarding the level and quality of information provided to the Board.

5) Agile decision-making that reinforces accountability at all levels of the organisation

- **The status quo:** Typically, the design of the Delegation of Authority occurs in a silo – without the engagement of key role players in the decision-making process. IIn addition, the Delegation of Authority tends to focus on quantitative decisions – thereby missing the opportunity to also articulate the decision-making process for qualitative decisions.
- **Governance priority:** Elevating the Delegation of Authority as a strategic governance instrument that sets out the decision-making process for key strategic decisions at the various levels of governance. The review and enhancement of the Delegation of Authority should be undertaken in tandem with the review of supporting governance instruments such a policies, frameworks, charters etc.

Executive summary *(continued)*

6) Governance of Environment and Social Impact

- **The status quo:** Companies are facing increasing pressure to manage a growing range of risks as a result of rapidly evolving environmental, social, and governance (ESG) issues. The growing consensus is that climate action and sustainability will evolve into a business imperative and strategic differentiator.
- **Governance priority:** Increasing representation of these important issues at the executive level, improving transparency and tracking of ESG relevant metrics and information and performance-linked Sustainability roles will help companies demonstrate how they are working towards their commitments to key investors and rating agencies.

7) The Governance of AI by today's Boards

- **The status quo:** Board members and Executives alike are excited at a chance to shape a future powered by the latest technologies, including Artificial Intelligence and Generative AI. But this does not come without risks and added responsibilities.
- **Governance priority:** Across industries and geographies, Boards are eager to devote more time to AI related discussions in order to adequately oversee the opportunities and the risks that could manifest by using AI – particularly Gen AI. An opportunity exists for Boards to contemplate, define and scale AI oversight. This begins with putting AI on the Board agenda – and ensuring that the discussion is strategic in nature.

Key takeaway/Concluding remarks

Whilst governance practices and effectiveness have received significant focus over the past decade, the opportunity to enhance governance processes by design will significantly assist governance stakeholders to drive even greater transparency and realise increased efficiency within the governance processes, helping the Board and Executive structures to focus their efforts on the critical aspects that require stewardship and oversight.

The evolving Governance Model and enhancement of the Governance Framework

Effective governance processes support the delivery of strategy, and enable organisational resilience and performance, whilst also re-enforcing decision-making effectiveness. This results in enhanced stakeholder trust and communication and increased investor confidence.

This has necessitated the reconsideration of the Governance Model across the business and the need to formalise the organisational Governance Framework. Too often, the organisation's Governance Model is outdated and does not align to key shifts in the business and the environment within which it operates. As such, duplication and redundancy are common challenges with respect to key governance structures across the organisation.The key dimensions of a leading Governance Framework include:

Key governance priorities

The formalisation of a Board-approved Governance Framework as an enabler in driving effective governance principles and practices. The Governance Framework sets the tone for governance requirements across the Company's footprint and serves as the golden thread that weaves together all organisational governance expectations – at a Corporate, Executive and Operational level.

The key dimensions of a leading Governance Framework include:

- Roles and responsibilities of the key governance structures at a Board and Management level
- Governance of the functional areas (e.g. Risk & Compliance, Technology & Information, Stakeholder Management, ESG, Internal Controls & Assurance)
- The requirements for operational governance
- The integration of governance processes
- Key considerations for group/subsidiary governance
- The governance of decision-making
- Policy management principles and requirements
- Reporting requirements and framework
- Requirements for the periodic assessment of the maturity of governance structures and mechanisms (at a Board and management level)

Re-alignment of the Governance Model to the Company's operating model, nature of business as well as the key legislative requirements is also key for leading organisations.

Accelerating Executive Effectiveness

The role of the Executive Team as a core governance layer is a key enabler to governance effectiveness. The shift towards a more intentionally designed Executive Governance Model that aligns to the Board/Corporate Governance Model (and more importantly, the organisation's operating model) supports an organisation's ability to maximise alignment between Executive and Board governance.

This is even more critical for complex groups with multiple business focus areas that add a level of complexity in cascading Group governance priorities and accountability across global operating entities.

Key governance priorities

Intentional design of the Executive Governance model, taking consideration of the unique attributes of the organisations operating model, the nature of business and key governance requirements to build into the Executive Committee (EXCO) and supporting Sub-committees to enable efficient and transparent governance that delivers the right levels of management decision-making and business performance, including effective oversight and control over operations, management of risk and appropriate engagement and escalation of items that may impact business performance.

Consideration of the extent to which the Executive Governance Model supports the Executive mandate – including key areas of focus.

EXCO membership remains critical in ensuring that the size and composition of the EXCO and supporting Sub-Committees facilitate agility and appropriate input and oversight for Executives with the requisite knowledge and experience to contribute meaningfully to committee deliberations.

An emphasis on Subsidiary Governance and alignment on the role of Subsidiary Boards

The effective oversight of subsidiaries in a complex Group is an area that warrants careful consideration and enhancement.

A delicate balance must be maintained in this regard – one the one hand, each subsidiary that is established as a separate legal entity is required to be managed by, or under the direction of its Board – to whom joint and several legal liability may be attributed. Similarly, the Board of the Holding Company owes a fiduciary duty to that Holding Company – which includes the oversight and accountability for Group-wide activities and performance.

This reinforces the need for effective governance and oversight mechanisms to be put in place with respect to the governance and oversight of subsidiaries in a Group construct.

The risk exposure for Holding Companies with respect to key subsidiaries within a Group of Companies, as well as the direct impact that the performance of key subsidiaries has on the bottom line of the Group (and ultimately the value derived for all stakeholders) requires that Holding Companies clearly articulate expectations and non-negotiable governance requirements for all entities/structures across the Group of Companies.

In our experience, the formalisation of the framework within which subsidiaries are required to operate addresses potential challenges that may arise in a Group construct.

An emphasis on Subsidiary Governance and alignment on the role of Subsidiary Boards *(continued)*

Key governance priorities

Formal articulation of a Subsidiary Governance Framework that serves to provide clear direction to Subsidiary Boards including setting the tone for ethical leadership and an ethical culture and reinforcing the non-negotiable governance philosophy and governance requirements that should guide the manner in which a subsidiary is governed and directed by its Board.

Articulation of the matters reserved for decision-making at a Holding Company level, or instances where input from the Holding Company will be required (in alignment with the respective founding documents).

Clear rules of engagement and interplay between the Shareholder and the Subsidiaries (e.g. shareholder representation on Subsidiary Boards etc.) and the role of Shareholder representation on subsidiary Boards.

Effective governance relating to the process and requirements for the alignment of the Group-wide strategy. This typically entails governance in relation to the input required by the Holding Company into subsidiary business plans and budgets etc.

A fit-for-purpose Board Reporting Framework

Effective Board and Board Committee reporting enables effective strategic decision-making, builds trust between the Board and Management and provides an appropriate platform for Board members to work with Management to add real value to the organisation.

The emphasis on reporting requirements has often focused on external integrated reporting requirements – with limited attention by Boards on the articulation and setting of expectations on the level and quality of reporting expected from Management in order to facilitate effective oversight and decision-making in Board meetings. Too often, the level, quality and quantity of information reported to the Board by Management follows a bottom-up approach – where Management prescribes the level and extent of reporting– as opposed to a top-down approach in which the Board clearly articulates its reporting expectations in order to adequately and effectively discharge its duties.

Key governance priorities

Leading Boards are clearly articulating their needs and expectations with respect to management reporting in the form of a Board Reporting Framework, which sets out the strategic requirements and expectations regarding the level and quality of information provided to the Board, provides guidance on the considerations that should be taken into account when Management prepares reports for the Board, and confirms and standardises the format and structure of reports tabled for Board and Board Committee deliberation.

In setting reporting expectations, leading Board recognise the value of forward-looking/predictive information – as opposed to a focus solely on historic-based information and reporting.

Strategic KPI metrics need to balance desired business outcomes as well as business drivers, considering appropriate leading and lagging metrics that assist the Board and the Executive to appropriately monitor performance against set objectives. The Reporting Framework aligns reporting to these strategic KPIs to ensure that reporting to the Board and its Committees is performance driven and strategic in nature.

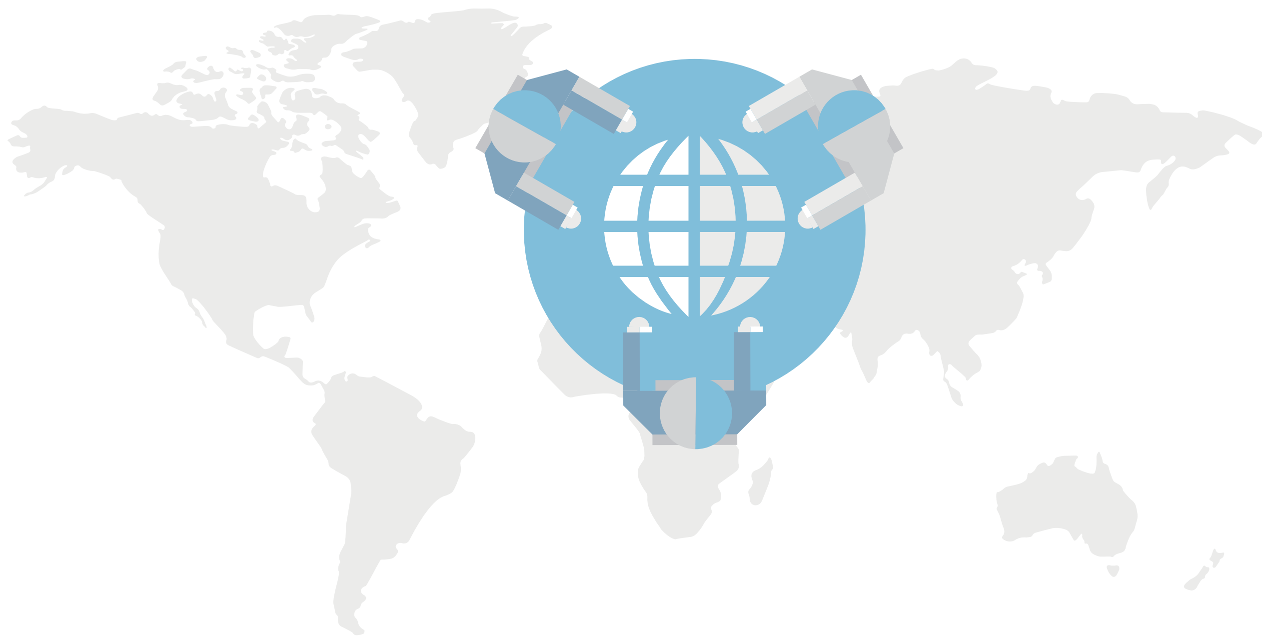
The Reporting Framework should also serve to confirm reporting requirements to the respective Board Committees – in alignment with the Committee mandate and responsibilities, as well as strategic KPIs.

Agile decision-making that reinforces accountability at all levels of the organisation

A key facet of the Governance Framework that requires careful consideration is the manner in which decision-making is governed. In our experience, the design of the Delegation of Authority (DoA) occurs in a silo – without the engagement of key role players in the decision-making process. In addition, the Delegation of Authority tends to focus on quantitative decisions – thereby missing the opportunity to also articulate the decision-making process for qualitative decisions

An effective Delegation of Authority serves to empower capable leaders to make decisions at the appropriate levels across an organisation, in line the organisation's strategy and risk appetite.

The Delegation of Authority should strike a balance between ensuring the incorporation of the relevant role players in the decision-making process, whilst ensuring that the level of engagement required does not hamper on the agility of decision-making. In order to get this right, it is critical that the design of the Delegation of Authority is a collaborative process – guided by industry and legislative requirements as well as the organisation-specific imperatives and culture.



Agile decision-making that reinforces accountability at all levels of the organisation *(continued)*

Key governance priorities

Elevating the Delegation of Authority as a strategic governance instrument that sets out the decision-making process for key strategic decisions at the various levels of governance. In addition, duplications between the Delegation of Authority and other governance documents is kept at a minimum.

To ensure this, the review and enhancement of the Delegation of Authority should be undertaken in tandem with the review of supporting governance instruments such a policies, frameworks, charters etc.

In a Group construct, decision-making at a subsidiary level should be informed by the overarching Group/Holding Company Delegation of Authority – whilst acknowledging the independent legal status of the Subsidiary (where applicable).

This is achieved through ensuring that the extent of input/consultation/decision-making required by the Holding Company into Subsidiary matters is carefully considered and articulated in the Delegation of Authority as well as the founding documents/shareholder agreements.

In our experience, the thresholds associated with decisions in the Delegation of Authority are based on a "gut-feel" of the leadership team as opposed to being driven by a clearly articulated methodology. The articulation of a scientifically-based threshold methodology will ensure that thresholds may be updated on a periodic basis based on a well-understood logic and approach, ensuring that changes in leadership do not result in a haphazard and unscientific revision of thresholds. The methodology approved should be based on key drivers within the business (e.g. revenue, assets, equity etc.) to ensure that as the business expands and matures, the thresholds as contained in the DoA are adjusted accordingly.

Decision-tracking is a key area of focus in leading organisations. This entails review and consideration of the extent to which decisions made across the organisation align to the prescripts of the Delegation of Authority.

Organisations of the future are moving towards the digitisation of Delegation of Authority. In addition, the alignment of the Digital Delegation of Authority and the various enabling systems that operate across the DoA is prioritised.

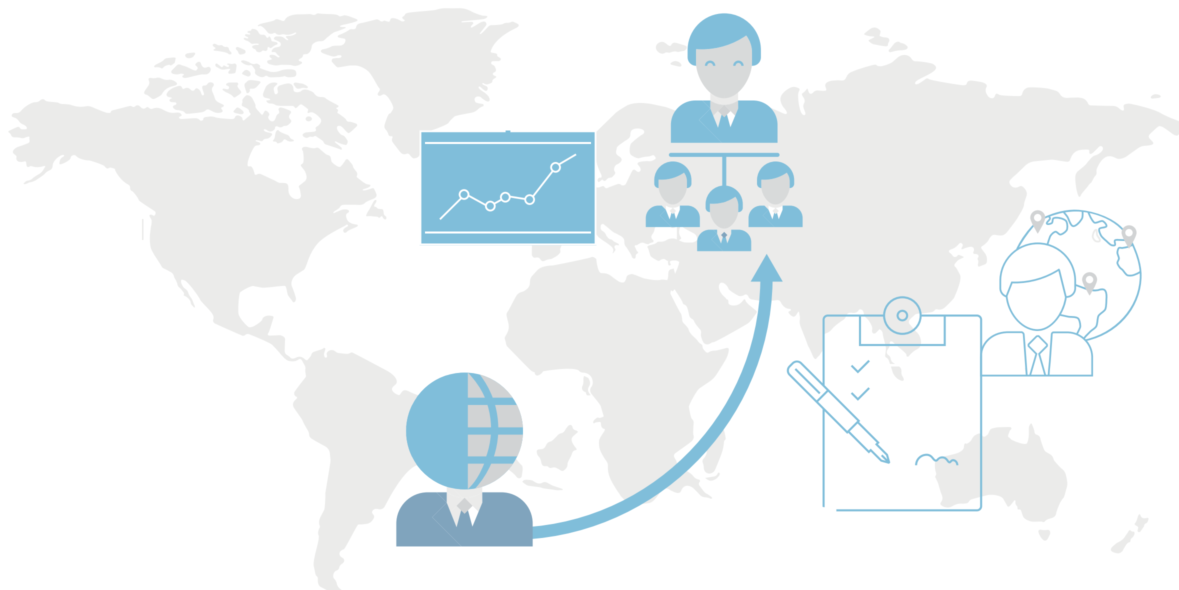
Governance of Environment and Social Impact

Companies are facing increasing pressure to manage a growing range of risks as a result of rapidly evolving environmental, social, and governance (ESG) issues. The growing consensus is that climate action and sustainability will evolve into a business imperative and strategic differentiator. Companies are beginning to realise that the long-term benefits of investing in these measures outweigh the short-term costs.

Climate-related factors have gained a great deal of attention among ESG matters, but the scope of ESG is much broader, including social aspects of a Company's relationships with its stakeholders and a growing demand for effective governance and transparency. Securing effective governance around ESG issues is key in building a resilient organisation and reducing risk. This will require the right level of oversight – both at a Board and Management level – as the ESG agenda does not sit squarely in the remit of one member of the Executive and/or one Board Committee.

A recent Deloitte Global survey of Global C-Suite leaders revealed that, across industries, many organisations are only beginning to take concrete actions that embrace the transition to a low-carbon future. Almost 40% of respondents expect climate change to have little or some impact on business strategy, and fewer still have put metrics in place to help create accountability and transparency for delivering on the climate agenda. For example, only 33% of respondents say their organisations are tying senior leader compensation to environmental sustainability performance.

Overall, the survey findings highlight the need for a greater sense of urgency and accountability to help move the needle on the climate challenge agenda.



Governance of Environment and Social Impact *(continued)*

Key governance priorities

More and more, organisations face increasing pressure to embed Sustainability initiatives across all levels of their organisation to avoid reports of commitments being purely cosmetic. Increasing representation of these important issues at the executive level, improving transparency and tracking of ESG-relevant metrics and information and performance-linked Sustainability roles will help companies demonstrate how they are working towards their commitments to key investors and rating agencies.

Leading organisations are reinforcing the unique role that each member of the Executive in the ESG/Sustainability agenda and unpacking the ESG C-Suite accountability in order to ensure that the C-Suite is fully aligned to ensure holistic embedding of the company's Sustainability Strategy and performance.

Based on the sheer depth and breadth of an organisation's sustainability priorities, there will, inherently, be varying touch points with each of the Board Committees. Whilst some organisations (particularly in the global context) have responded to the emerging need to ensure effective governance of sustainability-related matters by establishing new governance structures (such as a Sustainability Committee), the South African context requires careful consideration.

The South African Companies Act requires the establishment of a Social and Ethics Committee – the *"social conscience"* of the organisation. In many respects, the statutory role of the Social and Ethics Committee replicates the expected roles and responsibilities of a globally established Sustainability Committee. As such, it is of paramount importance that the roles and responsibilities of the respective Boards are clearly articulated insofar as the organisation's sustainability priorities are concerned.

Boards that we engage with agree that it is unnecessary for all Board members to be experts on climate change; however, there is consensus that ongoing training and education on sustainability and climate change are vital to raising the Board's level of climate competence.

Leaders acknowledge that multiple stakeholders exert pressure on their organisations, including non-governmental organisations (NGOs), activist groups, consumers, regulators, and investors. This warrants the establishment of a robust Stakeholder Management Framework that ensures appropriate identification and management strategies for key stakeholder groups.

The Governance of AI by today's Boards

We are at an inflection point – not only for business and industry – but for society at large. Board members and Executives alike are excited at a chance to shape a future powered by the latest technologies, including Artificial Intelligence and Generative AI. But this does not come without risks and added responsibilities. The decisions made by leaders today will have pervasive impacts on both organisations they lead and societies around the world. Infusing a mindset of trust and ethics from the start will be vital to shaping short term and long-term adoption.

So how are Boards navigating these opportunities and challenges? What is resoundingly clear is that Boards are eager to spend more time on AI, enhance their knowledge and experience and accelerate the pace of adoption in their organisations.

Key governance priorities

Across industries and geographies, Boards are eager to devote more time to AI related discussions in order to adequately oversee the opportunities and the risks that could manifest by using AI – particularly Gen AI. An opportunity exists for Boards to contemplate, define and scale AI oversight. This begins with putting AI on the Board agenda – and ensuring that the discussion is strategic in nature.

To effectively exercise oversight, Boards are moving towards delineating and assigning AI-related responsibilities. This includes consideration as to which matters should be discussed by the full Board, and what, if anything, will be delegated to a Board Committee – and if so – which one.

The Board should consider the extent to which the Board is receiving sufficient and appropriate information from Management about AI-related matters, including risk management and internal controls in order to exercise effective oversight.

Based on our research, most Boards have limited understanding of the "art of the possible" in the use of AI in the enterprise – with the average Board having limited, minimal or no knowledge or experience with AI. Whilst the majority of global Boards are not yet reconsidering the composition of the Board to include AI fluency, Boards are aware of the need to upskill on AI and are taking action to increase their knowledge of AI in the Boardroom – whilst leveraging external experts, where appropriate, to add to the AI literacy and fluency of the Board.

Key takeaway

Current priorities present significant opportunities for Boards and Corporate Secretariat functions to enhance the tools and capabilities in place to drive more effective governance across the organisation.

Whilst governance practices and effectiveness have received significant focus over the past decade, the opportunity to enhance governance processes by design will significantly assist governance stakeholders to drive even greater transparency and realise increased efficiency within the governance processes, helping the Board and Executive structures to focus their efforts on the critical aspects that require stewardship and oversight.

Contacts

Strategic Governance and Transformation services are provided as part of our broader Risk, Regulatory, and Forensics offering, focused on partnering with our clients to unlock potential across the organisation, protect the business and bottom line and boost brand resilience.

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