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CRISIS MANAGEMENT
CORPORATE GOVERNANCE
FORENSICS

RESOLUTE. PRACTICAL. CAPABLE

Business capture? State Capture! Lessons for the CFO.

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Business capture? State Capture! Lessons for the CFO.

- Are you captured?
- South African business leaders cannot be naive about the reach and impact of illicit conduct across the private and public sector
- Challenge you to think more critically around the role of corporate governance
- Share practical approaches to moving your organisation forward



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Are you captured?

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Global Corruption Barometer

119 countries, 162 000 citizens (2014 to 2017)

- Top 4 most corrupt sectors (3 politics, public service and government)
– **4th is business – ONE IN THREE ARE CORRUPT IN EACH SECTOR**
- 1 in 4 citizens paid a bribe for public services
- 50% say citizens can make a difference in combating corruption

TI Global Corruption Barometer 2017. From: <https://www.corruptionwatch.org.za/global-corruption-barometer-voice-worlds-citizens/>

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Are you captured?

Illicit Conduct

“Scharmer, 2017 – “The fish rots from the head” – **DIESELGATE 2015**

- Volkswagen conceals diesel carbon emissions
- Built-in device to switch off carbon emission controls when car is undergoing laboratory testing
- Created the false impression of an ecologically-friendly car

Scharmer, O. 2017. The fish rots from the head. Huffpost. From: http://www.huffingtonpost.com/otto-scharmer/the-fish-rots-from-the-he_b_8208652.html

In April 2017, a US federal judge ordered Volkswagen "to pay a \$2.8 billion criminal fine for rigging diesel-powered vehicles to cheat on government emissions tests"

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South African business leaders cannot act naive about the reach and impact of illicit conduct across the private and public sector

Global Corruption Barometer (Corruption in Africa Report)

43,143 people across 28 countries in Sub-Saharan Africa

- 83% (4 out of 5) South Africans believe corruption is on the increase
- Police and **business executives seen as most corruption**
- 1 in 5 people in Africa paid a bribe
- Half (50%) believe they can fight corruption

TI Corruption in Africa Report 2015. From: https://www.transparency.org/news/feature/corruption_in_africa_75_million_people_pay_bribes

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South African business leaders cannot keep acting naive about the reach and impact of illicit conduct across the private and public sector

South African business leaders cannot act naive about the reach and impact of illicit conduct across the private and public sector

Illicit conduct in private/public sector

Grootes, 2017

- Collusive cartels, fake bids, price fixing and market division in currency manipulation by fourteen financial services banks
- Citibank fined R69.5 million as part of a settlement arrangement with the Competition Commission
- Citibank, effectively the whistle blower, agreed to cooperate by exposing the alleged secretive and illicit activities of a cartel of banks

Grootes, S. 2017. Competition commission explains Citibank collusion settlement. From: <http://ewn.co.za/2017/03/22/competition-commission-explains-citibank-collusion-settlement>

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South African business leaders cannot act naive about the reach and impact of illicit conduct across the private and public sector

Illicit conduct in private/public sector

Rahlaga, 2017

- Three recruitment advertising companies - operating in the several different industries. Linking job seekers to potential employers and assisting people to place and respond to advertisements in newspapers
- Price fixing, market division and collusive tendering, pricing, quoting by Human Communications, Kone Staffing and Jobvest to common clients
- Also rotated business opportunities amongst each other

Rahlaga, M. 2017. Competition commission refers 3 advertising recruitment firms to tribunal. <http://ewn.co.za/2017/03/09/competition-commission-refers-3-advertising-firms-to-tribunal>

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No place for business without Ethics

- With only personal and economic self interest
- Serving private groupings
- To the direct detriment of human and social needs and concerns
- To the detriment of the natural environment

Goss, P. 2017. Corporate Governance and Illicit Conduct.
Pretoria: Agency for Corporate Governance

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Rossouw & Van Vuuren, 2016 - A Sure Model for Corporate Failure

- Shareholder value dominance
- Ethical neutrality motives
- Amoral Managers
- Amoral beliefs and business language
- Abusive behaviour which takes stakeholders for granted

Rossouw, D, & Van Vuuren, L. 2016. Business Ethics. 5th Ed. Cape Town: Oxford

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**Challenge you to think more critically
around the role of corporate
governance**

Bringing reality to solutions

Reconcile yourself with the following:

- Passive compliance
- Obsession with internal control and regulation

These are not the point of business!!!

Bringing reality to solutions

Accept that:

Core purpose of business is entrepreneurship

- Business is about grabbing opportunities and taking risks
- Even about leveraging opportunity from threats

Bringing reality to solutions

Accept that:

But with the eye on long-term sustainable value

- Building the economy
- Creating jobs
- Supporting society
- Corporate citizenship

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Share practical approaches for moving your organisation forward

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For **accountability**

- Accept responsibility don't abdicate accountability
- Think deeply about implications of trimming audit scope
- Auditors – Be cautious not to draw yourselves into accountability and liability through losing professional scepticism

Share practical approaches to moving your organisation forward

For **responsibility**

- Keep roles and responsibilities and delegations explicit
- Keep Board members away from operations – contract negotiation, investment decisions, executive roles in subsidiaries, negotiating credit/overdraft facilities
- Auditors – Be cautious not to draw yourselves into accountability and liability through losing professional scepticism

Share practical approaches to moving your organisation forward

For **fairness**

- Watch out for Board members' self interest and reward, consulting fees, other conflicts of interests and independence challenges
- Ensure meaningful disclosure and probing due diligence
- Accounting Officers stay away from politics in management, political lobbying and party funding

Share practical approaches to moving your organisation forward

For **transparency**

- Question verbal submissions, for approvals of transactions, made at Board
- Formal reporting and disclosure of Board Committee activities
- Insist on reliable business and corporate intelligence and challenge robustly prior to approvals
- Ensure **FULL** disclosure and investigate basis of all Board and EXCO remuneration, related-party transactions, contract variations, *ex-poste facto* condonation requests

Share practical approaches to moving your organisation forward

In summary, **REMEMBER** corporate governance is literally about 'doing business'. It is:

- The way companies conceptualise a business and develop business ideas, strategies, plans, policy frameworks and standard operating procedures
- The structures it puts in place to make the above work
- Creating jobs, employs, treats and pays people fairly
- The modes for the services, products the company develops, manufactures and sells

Share practical approaches to moving your organisation forward

In summary, **REMEMBER** corporate governance is literally about 'doing business'. It is:

- The customers it makes promises to and delivers to through ethical pricing, service delivery and sales and product delivery
- The shareholders it makes profits for, while sharing those profits with its employees and in corporate social investment
- The remuneration it pays its executive management as fair return for their contribution
- Keeping books of account in line with requisite company laws, regulations and policies

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Share practical approaches to moving your organisation forward

In summary, **REMEMBER** corporate governance is literally about 'doing business'. It is:

- Ensuring that it has systems that protect the stakeholders affected by its operations and how it contributes to society in general maintaining a respectable reputation and being a good citizen within society, effectively a good corporate citizen
- Ultimately creating sustainable value into the future

Via ethical and effective leadership using assets and capitals at the disposal of the company

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Thank you!

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