Good IT governance: The separation of technology and information.
Introduction

Good governance has never been more important than it is today, yet equally has never been more complex. As the complexities of government and global business grows, so do the regulations being put into place.

Some regulations evolve over time or adapt to social or economic changes, but sadly most changes in governance guidelines still come about as a result of scandals and controversies around the world exposing another ‘kink in the chain’. There has never been greater pressure now for an organisation to behave correctly, and there have never been greater corporate and personal consequences for those that do not.

The latest changes in governance guidelines in South Africa come in the form of the King IV Report™*, which came into effect on 1 April 2017, focusing on giving organisations a more practical guide, with an emphasis on accountability and transparency, as well as incorporating international regulatory changes that have come into place since the previous report was issued in 2009.

Most organisations around the world are suffering from regulation fatigue with the amount of work that is needed to prove compliance, but this white paper will focus on the role that technology can play in easing this administrative burden and keeping you ahead of the compliance curve.

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What is good governance?

The principles of good governance are not new and really they aren’t anything more than a secure moral footing for your business. Governance is the way that organisations and institutions conduct their affairs and meeting their legal and social obligations. In short, it’s the decision making process and the way in which they are implemented, or in some high profile cases, not implemented.

Governance is always there in the background of every action and decision that is made, whether that be in the private sector or at national or local government levels, the concept of ‘good governance’ only comes to the fore in the light of ineffective organisations or bodies failing to meet the needs of their employees, customers or citizens.

The business climate shifted considerably post 2008 as a result of the global financial crisis, when governments all over the world set up review programmes to look at the reasons behind it and ways to prevent it happening again. One such programme, published in 2013, found that the crash at least in part, occurred as a result of bad corporate culture and lack of personal responsibility.

Ensuring compliance is the responsibility of the board for each of these institutions and organisations, however the burden of documenting the compliance often falls on the company secretary, sometimes called the corporate secretary, alongside their other responsibilities. The increase in the amount and the complexities of new regulations impacts on the company secretary more than any other. This is something we have covered in another white paper if you want to know more about this vital, yet under pressure position.

The principles of good governance are nothing new, and were in place long before the financial crash. The crisis did not create the need for good governance, but did focus the mind on compliance and brought it into the global public consciousness, however for companies in South Africa, the emphasis on greater governance began 14 years before with the publication of the first King report.
King I™ was published in 1994, and was the first corporate governance code in South Africa. Published by the King committee, headed by retired Supreme Court of South Africa judge Mervyn E. King. This was viewed as a way of educating the newly democratic South African public on the working of a free economy, as well as giving its thoughts on achieving effective and ethical leadership. The first report was based upon an ‘apply or explain’ approach as the code was non-legislative, however as we will see later, this has changed over time.

The report established recommended standards of conduct for boards and directors of large companies listed on the Johannesburg Stock Exchange, public entities, banks and insurance companies. Focussing largely on the basics of board of directors make up, appointments and meeting frequency, King I established the ground works for organisations to build upon as well as addressing the company’s code of ethics and auditing and reporting.

Over time, the revisions of the reports have increased their reach of organisations to which it is relevant, and it is now applicable to all entities; public, private and non-profit including government departments and local government. The reports also increased the areas that it covered to include risk management, evaluation of director performance, accounting and IT governance.

The revisions of the King Reports are increasing in both their scope and their frequency as the demand for good governance increases alongside the increase in regulations and laws designed to prevent another global crisis and to instil greater accountability among organisations to prevent further corporate scandals. The goal of achieving sustainable economic, social and environmental performance is something that King believes is imperative and is something that every leader should direct their company to achieve.
The latest report, King IV, was published in November 2016 and is effective as of 1 April 2017 and has superseded the previous report in its entirety. But what changes have been made and how can you ensure compliance with some of the newest recommendations?

**King IV™**

The biggest change in the latest report, as we briefly touched on earlier, is the change from an “apply or explain” approach to “apply and explain”. Application of the principles outlined is now assumed and the onus is on companies to prove and explain that they have been implemented in the form of a narrative account with reference to the practices and how they achieve the principle behind them. The focus of this report is very much on ensuring that the application of the principles achieves the specifically identified governance outcomes.

In light of recent high profile scandals regarding executive pay, greater prominence is placed on remuneration and the implementation report, to ensure fair and responsible practices in light of overall employee remuneration. In short, further efforts are being made to protect against corporate greed and ensure fairness for all.

Other key amendments focus heavily on the critical role of stakeholders in the governance process. The needs, interests and expectations of stakeholders must now be considered as a matter that holds intrinsic value but King IV also now recognises the role that the stakeholders have in holding the board and company accountable for their actions. With the greater levels of responsibility and scrutiny this brings, there is even more importance placed on the accountability and transparency of an organisation’s board.

The area that we think will place the largest amount of administrative burden is the need for greater governance structures around the protection of an organisations digital information and data.

“Most countries are making it possible that board members can be prosecuted in their personal capacity for the errors or omissions committed in their running of the organisations, hence I expect board members to be more involved rather than being in-active and un-informed members...”

– Financial Manager, Regulatory Board
With each advancement of technology shortly follows a change in laws designed to control and regulate the new use and power of the technology that’s now available. King III, published in 2009, was the first to officially introduce IT Governance in South Africa and, in particular, demanded a greater level of IT risk awareness at director level.

The technology landscape in 2009 looked very different to what it does today, the iPhone had not long been launched, there was no such thing as ‘tablets’, the concept of on-demand TV and video services was just starting to take off and the prospect of being able to access all of your information on the cloud anytime, anywhere had not yet been dreamt up. The advancement of technology in the prevailing years has been nothing short of breath-taking, and in the light of this advancement and the ‘Fourth Industrial Revolution’, IT security and data governance has had to up its game to combat the more sophisticated efforts by hackers and competitors to access this sensitive data.

The security of data storage and handling is where most cyber hackers find weaknesses as it’s easy to assume that your online, or internal, data centres are secure, yet without the proper security levels and measures put in place, you might quickly find your sensitive and private data being made very public, or at the very least, being held to ransom to re-acquire access to it.

In light of this increased threat, King IV has improved its recommendations to now advocate recognising information as being a separate corporate asset that needs its own protection and easy yet secure ways of enhancing its value.

Technology provides you the tools to access, protect and manage your data, but also has the power to disrupt long-term business models and procedures in ways that were not thought possible. Look at how technology has allowed Uber to take a hold of the taxi and personal transport market around the world if you want an example of how technology could massively disrupt your business.
The Board is specifically tasked with overseeing the technology and information policies under the new guidelines and these must support the company in achieving its strategic objectives. The board is also required to disclose the structure and processes that they put in place for handling technology and information, the mechanisms in place for monitoring the management of these areas as well as providing an indication of how the organisations current and future objectives are being affected by digital and technological developments. If this task didn’t sound onerous enough, undergoing periodical formal revues of the adequacy and effectiveness of the technology and information functions is also required.

The increase in demands on board members to understand the intricacies of technology and their role within different business procedures is one that should not be underestimated. However, rather than seeing this as a difficult hurdle to overcome, seeing this as a positive that will allow you to address underperforming systems will allow your organisation to flourish.

Putting structures in place

For any decision to be made by the board, a meeting must be held and it must be recorded to transparently show what was discussed, what materials supported the decision and how the decision was reached. This happens every day all over the world, yet capturing these meetings is still a major issue where governance fails.

Board meetings are a vital and inescapable part of any director’s life, and this is the one area that can be dramatically improved by technology and yet is the one area that is still largely untouched by many organisations. In research conducted by eShare, we found that 47% of people interviewed were not using technology to help them prepare for board meetings and prepare board meeting materials. For those not yet using board meeting technology, it is difficult to comprehend the difference that it would make. The benefits of using a board portal are numerous.

“\textit{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:}\n\begin{itemize}
  \item Integration of people, technologies, information and processes across the organisation
  \item Integration of technology and information risks into organisation-wide risk management
  \item Arrangements to provide for business resilience
  \item Proactive monitoring of intelligence to identify and respond to incidents, including cyber-attacks and adverse social media events
  \item Management of the performance of, and the risks pertaining to, third-party and outsourced service providers
  \item The assessment of value delivered to the organisation through significant investments in technology and information, including the evaluation of projects throughout their life cycles and of significant operational expenditure
  \item Ethical and responsible use of technology and information
  \item Compliance with relevant laws\end{itemize}\
- King IV report, 2017
Using a complete boardroom solution ticks many of the boxes and procedures that come from King IV on top of the personal benefits for the users of the technology. A board portal will allow the easy creation of a board meeting; from the agenda through to recording decisions and minutes, all from one secure platform. The meetings are easier to organise, easing the time pressures of company secretaries, and easier to attend as all of the information needed is in one, secure location accessible from anywhere. The benefits become even greater for those who are members of boards of different companies and subsidiaries. A board portal will allow you to access all the information you need from all of your companies in one place.

When choosing a board portal, ensuring that the data is stored correctly and securely will enable compliance with the information storage guidelines in the latest report. Data storage centres have security ratings, so be sure to look out for those which hold high security certifications, such as ISO27001.

King IV is focussed entirely on two things: accountability and transparency. By using a board portal to compile meeting material, take minutes and make decisions, every aspect of your meeting is recorded and documented in a fully transparent way that is easily recalled for an audit.

The focus on technology is greater than ever before in the latest report, and there is no doubt that IT governance will only become tougher as technology becomes more advanced and the threats to our security become greater, but by putting in place secure technology from the very beginning, every other aspect of your reviews and technology and information procedures becomes easier. With greater responsibility being put on boards, directors and company secretaries to prove their compliance, and the potential personal repercussions that could befall on you are huge.
Staying ahead of the curve

Online board portals can also make it easier for board members to communicate and provide an overview of governance throughout the organisation, helping to identify issues and drive improvement through a more transparent decision making process with greater access to important documentation. This greater level of accountability and transparency is great for a single organisation, but the management of subsidiaries and ensuring good governance throughout these too is a further headache.

The complex structure of most PLCs means it is getting harder to keep track of their many entities in countries all over the world. Using spreadsheets to track complex information like shareholding, jurisdictional regulations, directors and significant people as well as the decisions and outcomes of board meetings they hold is almost impossible. An effective entity management tool makes subsidiary management that bit simpler.

Entity management software allows company secretaries to remain on top of each entity and their individual legal requirements. Many large corporations are not even aware of all the entities that they own, never mind whom their directors are and whether they are doing their job in ensuring compliance with local regulations. However, new global requirements mean that this can no longer continue. By linking your entity management and board portal solutions, you can have greater control over your entities, easily make your directors more accountable and the whole corporate structure becomes instantly more transparent.

Both the holding company and the subsidiary boards used to be responsible for agreeing upon a good governance framework however in the King IV report, this responsibility now falls solely on the holding company board. So whilst entity management software used to be a nice to have, the importance of demonstrating good governance across your entire organisation has never been more important, so why not utilise the technology that’s available to you to achieve this?

Visit website:

- Entity management solution
Conclusion

The amount of regulations that organisations, institutions and government departments now have to comply with have never been greater or more complex and the potential penalties for non-compliance are becoming more and more severe for both the organisation and the person responsible.

Despite this increased focus on governance, the structures and procedures many organisations have in place for dealing with them are simply not up to standard and without improvement leaves the potential open for further corporate scandals. The increased focus on technology in King IV highlights further the important role that technology is playing in our day to day lives. Choosing the right software is paramount in not only complying with the new regulations but also demonstrating compliance and providing a platform that is fully transparent.

eShare works with hundreds of organisations around the world to improve their governance structures and we understand the complexities and challenges that many organisations are facing. To hear more about how we can help address some of the issues outlined in this paper, please get in touch via email on info@eshare.net, or call us on +27 79 340 2815.