

Gauging Corporate Governance

Investors, financial analysts and shareholder activists are increasingly using corporate governance practices as points of differentiation between investment options. The investment decision-making process has become more inclusive of a company's qualitative aspects. For South Africa to attain its stated growth objectives in a sustainable manner, it is imperative to attract and retain the necessary direct investment to underpin this growth. Developed economies already see corporate governance as a stand alone risk factor, which will be undoubtedly scrutinized in our economy when the time comes for making foreign investment decisions.

As corporate governance has become a *sine qua non* of efficient capital markets, the international community has emphasized the need for a global benchmark against which to measure corporate governance practices.

Assessing governance should not be just about what's countable, it should be about what counts. That means broadening the governance landscape. Risk factors increasingly include such issues as environmental management and human rights, areas where non-shareholding stakeholders are likely to be either legitimate or de facto monitors and watchdogs. Fostering positive interaction with these powerful stakeholders should feature in any corporate governance framework that takes sustainability seriously.

These principles point to the need to resist a 'metricated' only approach, in favour of a more holistic, impact-based, weighted qualitative assessment of various company practices to benchmark current and sustainable standards of corporate governance and the very long-term implications of such practices.

A Corporate Governance rating is an external, independent opinion assigned to a company on the soundness of corporate governance achieved by that company relative to a best practice benchmark. The objective is to assist an organization and interested stakeholders, in determining to what extent governance is sound enough to ensure long-term sustainability and to gauge improvements.

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