

INSTITUTE OF DIRECTORS
SOUTH AFRICA

DIRECTORS' SENTIMENT INDEX™ REPORT: 4TH EDITION

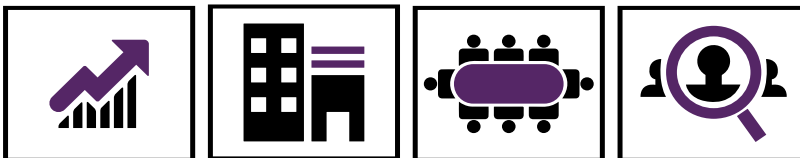
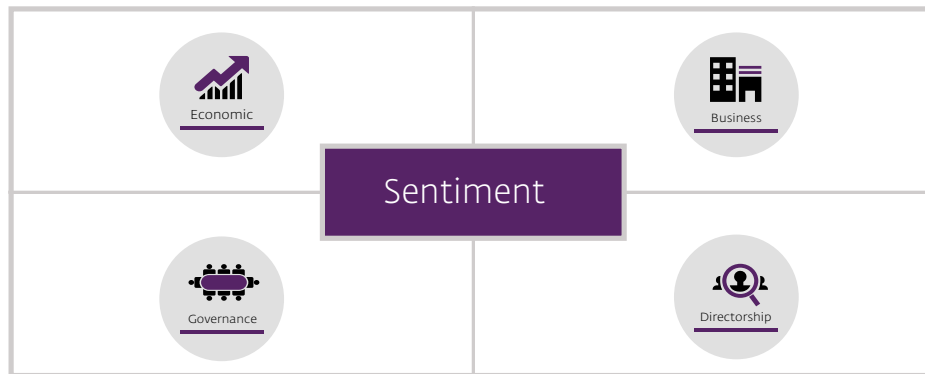


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1. FOREWORD

2019 marks the fourth iteration of the South African Directors' Sentiment Index™ research project. The overall aim of the research is to survey, document and monitor the sentiment of our country's business leaders, by measuring their views on a variety of elements covering Economic, Business, Governance and Directorship conditions.



In the short term, the aim of the research is to establish the current perceptual position of South African directors on conditions impacting the execution of their duties as directors. From a long-term perspective, the objective is to assess change in the sentiment of directors over time.

We believe that this study provides valuable indicators of the challenges that are most affecting members of The Institute of Directors in South Africa (IoDSA) and the wider director community in the execution of their directorship duties.

From the qualitative survey conducted this year, 44% of the respondents rated the Director Sentiment Index Report as being very useful (4), with an overall mean score of 3.6 out of 5 being obtained on the report usefulness. We are delighted to see that the report findings (whilst it may not be able to solve the challenges) is found to be useful by directors from a comparative perspective.

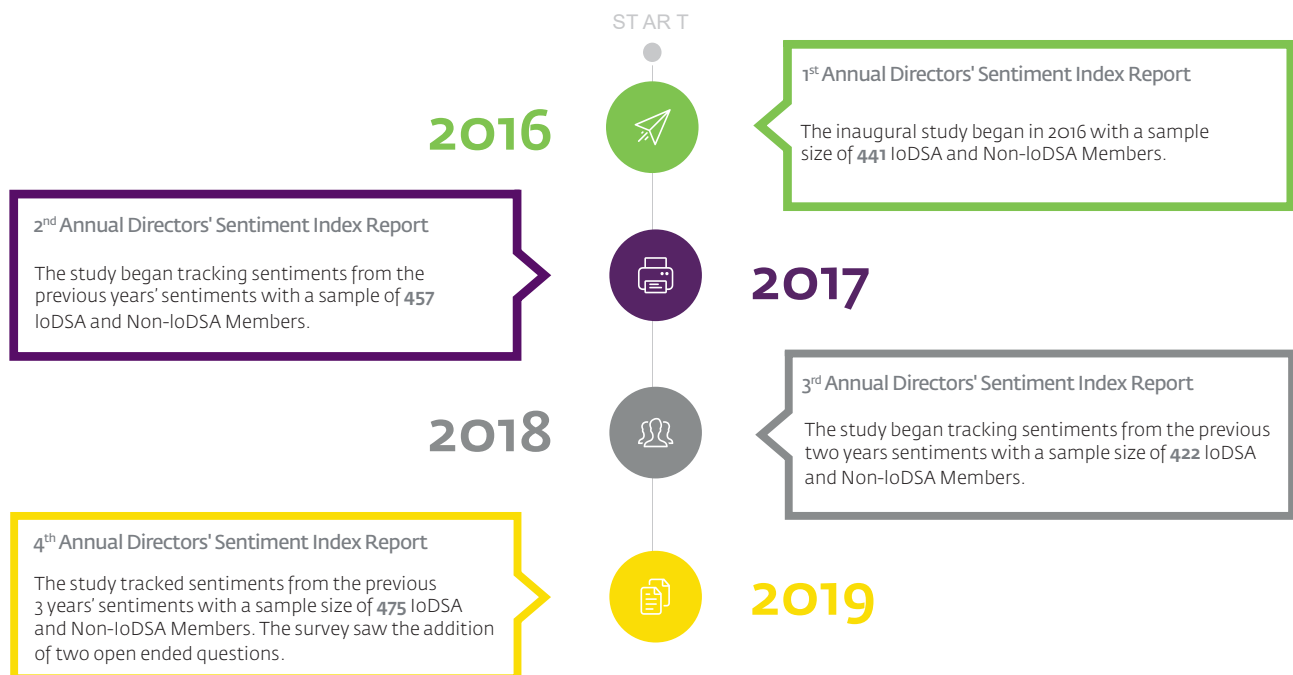
Vikeshni Vandayar

Executive: Governance & Corporate Services

"Apart from providing a window into others' thoughts and providing a means to avoid silo thinking, it also showcases future trends that we need to deal with as directors to have a systemic impact. Directors form the single largest block of leaders in the country and if they concertedly work towards corporate governance, can be a powerful force of good. The IoDSA should play a stronger role in promoting this message"

- IoDSA member (5 Rating)

2. RESEARCH TIMELINE



The IoDSA started this project in 2016 to gain insights into and understand the concerns and challenges faced by South African directors.

The research followed a quantitative approach, where data was obtained by means of an online survey that was circulated to the IoDSA member database as well as a specified sample of Non-IoDSA member directors drawn from a research company's national panel. However, in the 2019 research survey, two open-ended questions were added to gain feedback on the research and views from South African directors.

The qualitative feedback received from respondents is presented in the Executive summary that follows. We note the comments provided by respondents requesting the IoDSA to provide guidelines/workshops to solve the challenges raised. Whilst we will endeavor to address this request as far as possible, the IoDSA is not a regulatory body with the ability or position to make changes to the challenges experienced in the business and industry sections. When it comes to director and governance concerns/challenges, we have always and shall continue through our advocacy efforts with government and key stakeholders, training provided, advisory services and professional director designations strive to address the challenges faced by South African directors.

3. EXECUTIVE OVERVIEW

The findings of the 2019 Report reflect the views of a total of 475 South African directors comprising of 333 (70%) IoDSA members and 142 (30%) Non-IoDSA members. The demographic of the overall sample has not changed substantially from previous years, *albeit* there were more male respondents over 55 in this year's sample. Figure 1 below depicts the 2019 sample demographics.

The sample drawn from the IoDSA member base is reflective of its current membership profile¹. The Non-IoDSA member sample of directors represented more Private and SMME sector directors and more Eastern Cape representations. The number of Non-Executive directors was far greater in the IoDSA members sample (35% NED) than that of the Non-IoDSA members sample (4% NED).

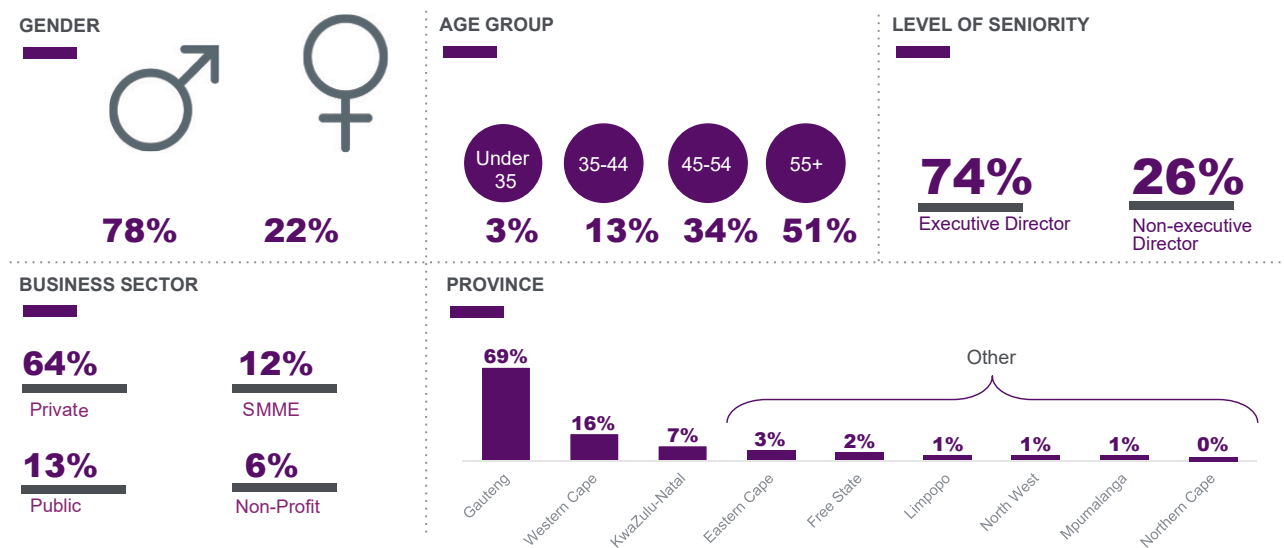


Figure 1: Total sample profile overview

¹ Detailed information on the profile of IoDSA members can be found in the latest IoDSA Integrated Report accessible via <https://www.iodsa.co.za/page/IntegratedReports>

EXECUTIVE OVERVIEW

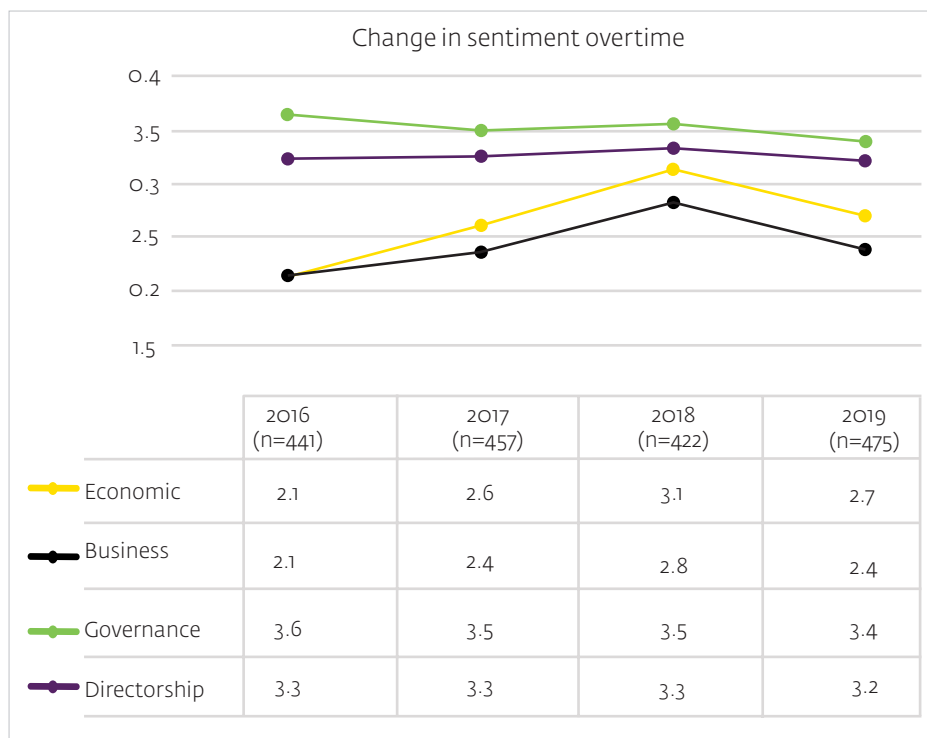


Figure 2: Change in the means scores of director sentiment over four years

As the survey was conducted over the period of 31 January and 27 February 2019, it is interesting to take note of the events that took place in South Africa during the same period. The Minister of Finance, Tito Mboweni had delivered his budget speech towards the end of February, in which he highlighted the need to cut jobs in the civil service sector as the government was not capable of paying the requisite salaries. In addition, the Minister highlighted slow economic growth in the country, lower tax revenues and the imminent need for financial support of state-owned enterprises.

It may be possible to deduce that the budget speech could have had an indirect negative impact on the economic and business sentiment responses. The overall sentiment in all four areas decreased in 2019.

EXECUTIVE OVERVIEW

At a glance South African directors feel as follows in respect of each of the areas covered:

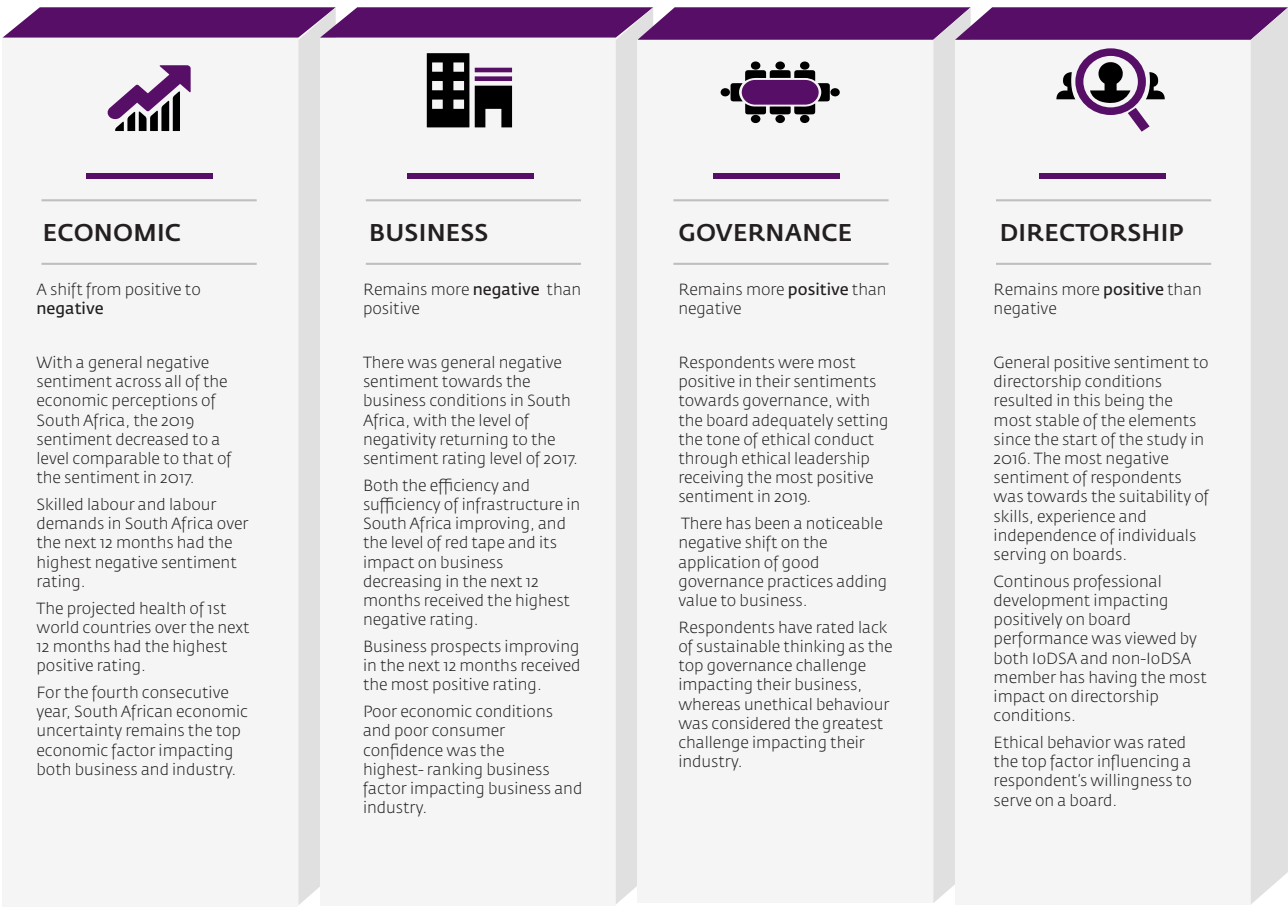


Figure 3: Overview of South African directors sentiment on the four areas covered

EXECUTIVE OVERVIEW

Respondents this year were given an opportunity to raise their overall concerns through open ended questions. The following 9 themes were drawn from the feedback received.

Themes	How the IoDSA can help
<p>01 - Corruption and Malfeasance</p> <p>Respondents felt corruption and malfeasance in both the private and public sector should be a discussion point.</p>	
<p>02 - Incompetent Directors</p> <p>There was a consensus amongst respondents that incompetent directors hinder board progress.</p>	<ul style="list-style-type: none"> • IoDSA training • Thought leadership via www.iodsa.co.za • Professional designations • Non-Executive Director vacancy adverts
<p>03 - Lack of adherence and understanding of King IV principles</p> <p>Directors noted a lack of board adherence and understanding of King IV principles. They noted that governance training could close the gap between theory and practice.</p>	<ul style="list-style-type: none"> • IoDSA training • Thought leadership • Technical Support Services • Governance advisory services
<p>04 - Lack of skill transfer of directors</p> <p>Respondents noted a lack of skill transfer from the older directors to the younger generation.</p>	<p>IoDSA Corporate Governance Network papers on:</p> <ul style="list-style-type: none"> • Mentorship for Governing Body members • Succession planning for the Governing Body
<p>05 - Hindrance of BBBEE</p> <p>Respondents found BBBEE regulations as a hindrance to their business practices.</p>	
<p>06 - Corporate governance failures</p> <p>Respondents felt that directors do not have much strategic control of the boards they serve as well as the lack of communication between stakeholders and the board of directors.</p>	<ul style="list-style-type: none"> • King IV Governance Assessments • Board Appraisal services • IoDSA Training
<p>07 - Directors must be held accountable</p> <p>Lack of accountability of directors in SOE's and private companies is a major concern.</p>	<ul style="list-style-type: none"> • Individual peer evaluations • IoDSA Director misconduct paper • Review of Board Charter/Terms of Reference, Code of Conduct etc.
<p>08 - Political unpredictability</p> <p>Respondents are concerned about the upcoming elections and what implications that has on their businesses and the economy.</p>	
<p>09 - Conflicts of interest</p> <p>Directors are concerned that boards of directors seldom have independent members.</p>	<p>IoDSA's Corporate Governance Network paper on:</p> <ul style="list-style-type: none"> • Conflict of interest • Business Judgement Rule <p>King IV Practice Notes on:</p> <ul style="list-style-type: none"> • Independence of Governing Body members • Declaration of Conflicts
<p>10 - Lack of transformation in boards</p> <p>Respondents noted no change in the transformation of boards and they note that the lack of board evaluations proliferates the problem.</p>	<ul style="list-style-type: none"> • Board Appraisal services • Skills Gap Analysis

4. ECONOMIC



4.1 General perception on Economic conditions

There was an overall negative sentiment towards the current economic conditions of South Africa, with a decrease in the mean scores from a neutral rating (3) in 2018 to a somewhat negative rating (2.7) in 2019. Skilled labour and labour demands in South Africa over the next 12 months was once again the greatest concern for directors with the highest negative sentiment. The most variable change was in relation to the projected health of the South African economy over the next 12 months, which reflected the greatest increase in both somewhat and very negative sentiment responses in 2019. Whilst directors continue to feel most positive about the projected health of 1st world countries over the next 12 months, there was a slight decrease in their positivity rating.

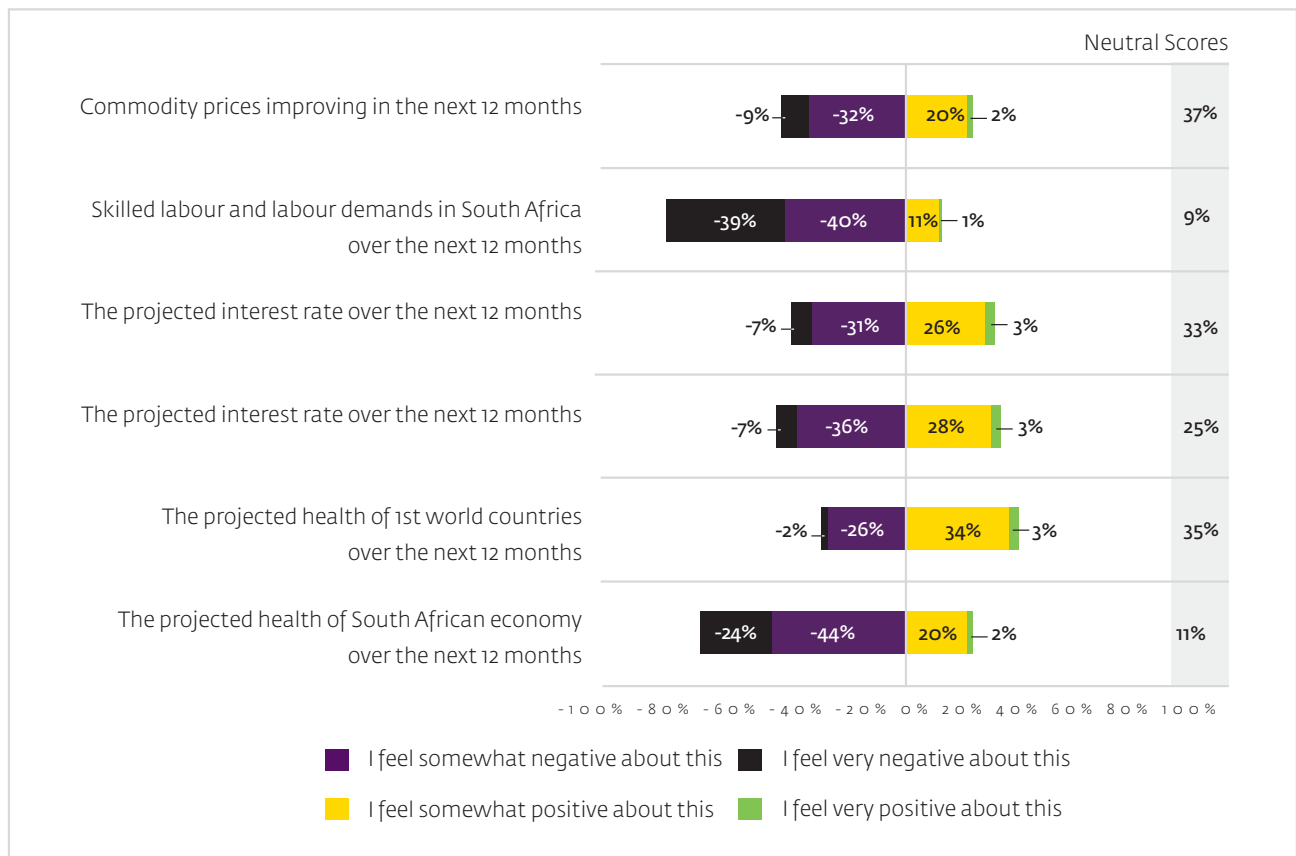


Figure 4: General Economic perceptions of total sample



Key themes emerging from the economic conditions per demographic split



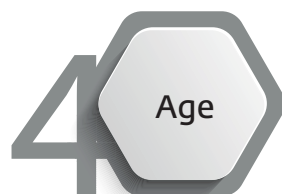
IoDSA members and Non-IoDSA members were aligned in their negative sentiment towards current economic conditions per the overall perception. Non-IoDSA members were notably more concerned about the projected health of the South African economy over the next 12 months, with IoDSA members particularly more positive about commodity prices improving in the next 12 months and the projected inflation rate over the next 12 months.



All four sectors displayed the same negative sentiment towards economic conditions as the overall perception. The Non-Profit sector, however, was more concerned about the projected health of South African economy over the next 12 months. Looking across the sectors, directors are more positive / least negative towards the projected health of 1st world countries over the next 12 month.



The trend remains the same as previous years, with females overall being more negative than males except in regards to skilled labour and labour demands. In 2019, male respondent's general negativity from previous years appear to have decreased with a increase in neutral and slightly positive sentiment seen in 2019.



The results for this category were mostly aligned to that of the overall sample group. There were anomalies however, with the 25-34 age group feeling most positive about commodity prices improving in the next 12 months and the 35-44 age group feeling most concerned about the projected health of the South African economy over the next 12 months.



4.2 Economic factors impacting business

For a fourth consecutive year, and with a slight increase in respondents selecting this challenge, over two thirds of respondents consider South African economic uncertainty the top challenge currently impacting their business. It is purported that the next three economic factors, namely effect of BBBEE on business, lack of skilled labour/personnel and social and political unrest all contribute to the economic uncertainty of the country. An inter-relationship between the factors is evident in this regard. The effect of BBBEE on business has been a top three concern for directors since the inception of the research project in 2016.

What do you consider to be the three main economic challenges currently facing your business?

TOTAL SAMPLE
(n=475)

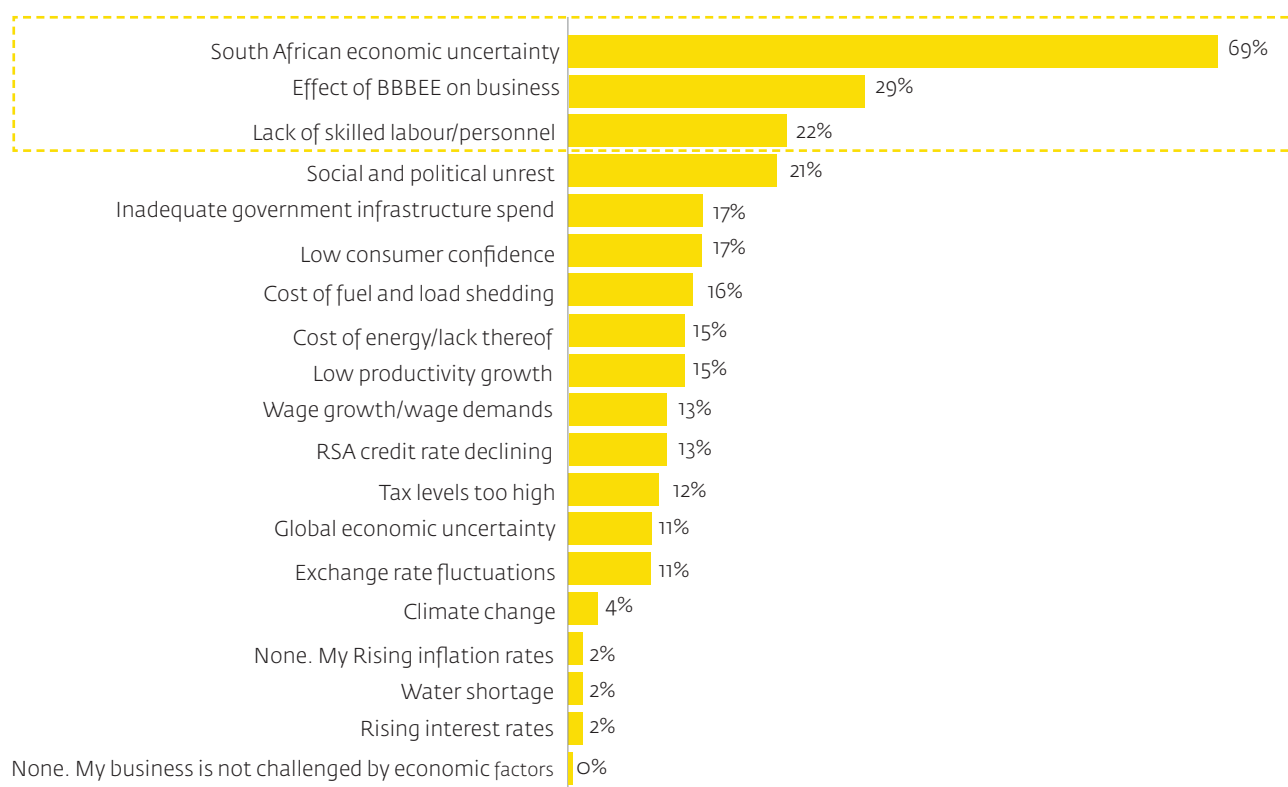


Figure 5: Economic factors impacting current business as perceived by the total sample group.



South African directors considered the following to be the top economic challenges affecting their businesses over the last four years.

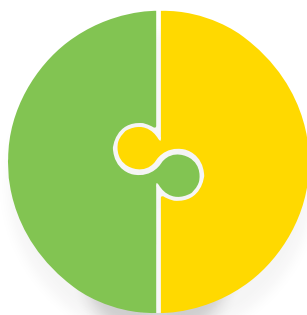
	2016	2017	2018	2019
1 st	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty
2 nd	Exchange rate fluctuations	Effect of BBBEE on business	Social and political unrest	Effect of BBBEE on business
3 rd	Effect of BBBEE on business	Social and political unrest	Effect of BBBEE on business	Lack of skilled labour/personnel
4 th	RSA credit rate declining	Global economic uncertainty	Lack of skilled labour/personnel	Social and political unrest
5 th	Lack of skilled labour/personnel	Inadequate government infrastructure spend	RSA credit rate declining	Inadequate government infrastructure spend & low consumer confidence

The next section presents some of the differences observed from the results displayed in Figure 5 in respect of the following categories²:

IoDSA MEMBERS VERSUS NON-IODSA MEMBERS

IoDSA Members

IoDSA members rated their top economic factors the same as the overall sample. They however did see low consumer confidence as a top challenge.



Non-IoDSA Members

Non-IoDSA members ranked low consumer confidence higher than social and political unrest, and further felt that tax levels being too high was more of a challenge than inadequate government infrastructure.

² The shaded boxes in the sector and age tables highlight the key differences in sentiment in those categories compared to the overall top three business impediments depicted in Figure 5.



SECTOR

Ranking	Private	SMME	Public	Non-Profit
1	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty
2	Effect of BBBEE on business	Effect of BBBEE on business	Low productivity growth	Lack of skilled labour/personnel Inadequate government infrastructure spend
3	Lack of skilled labour/personnel Social and political unrest	Lack of skilled labour/personnel Social and political unrest	Lack of skilled labour/personnel	Social and political unrest Cost of fuel and load shedding Low productivity growth

*Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.

The same trend has been seen in the last four years, with the sectors sharing a consistent pattern of rating more or less the same top 3 factors impacting their current business, with the exception of the Public sector, which has rated different factors, year on year as their second and third top factors currently affecting their business. Exchange rate fluctuations only featured in 2016 as a concern.

Respondents from the Public and Non-Profit sectors noticeably differed in their 2019 perception by rating low productivity growth as one of their top three economic factors impacting business, in addition, respondents from the Non-Profit sector seem to have a myriad of factors impacting their current business with cost of fuel and loadshedding affecting them more than the other sectors.

GENDER



Both genders have rated their top three economic factors impacting current business with the same three attributes. However male respondents viewed lack of skilled labour/personnel as a more of a challenge than effect of BBBEE on business. Female respondents felt in addition that social and political unrest had a higher impact on their business, in comparison to male respondents, who considered the cost of energy/lack thereof and the RSA credit rate declining as having more of an impact on their current business.



AGE

Ranking	25-34	35-44	45-54	55+
1	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty
2	Wage growth/ wage demands Global economic uncertainty	Effect of BBBEE on business	Effect of BBBEE on business	Effect of BBBEE on business
3	Effect of BBBEE on business Lack of skilled labour/personnel Inadequate government infrastructure spend	Lack of skilled labour/personnel	Lack of skilled labour/personnel	Social and political unrest

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

Across the age groups, South African economic uncertainty was rated the top economic factor currently impacting business, but this was evidently more of a concern for those aged 45 and above with well over two thirds of the respondents rating this as number one. The youngest age group (25-34) differed significantly from the other age groups, which shows the differing views of younger generation and the challenges which organisations need to consider as the stakeholder age groups change.



4.3 Economic factors impacting industry

South African economic uncertainty has consistently been rated the top economic factor impacting industry across the total sample group since 2016. The conditions impacting industry are very similar to the factors impacting business save for wage growth/wage demands which had more of an impact on the industry, as opposed to business conditions of directors.

What do you consider to be the three main economic challenges currently facing your industry?

TOTAL SAMPLE
(n=475)

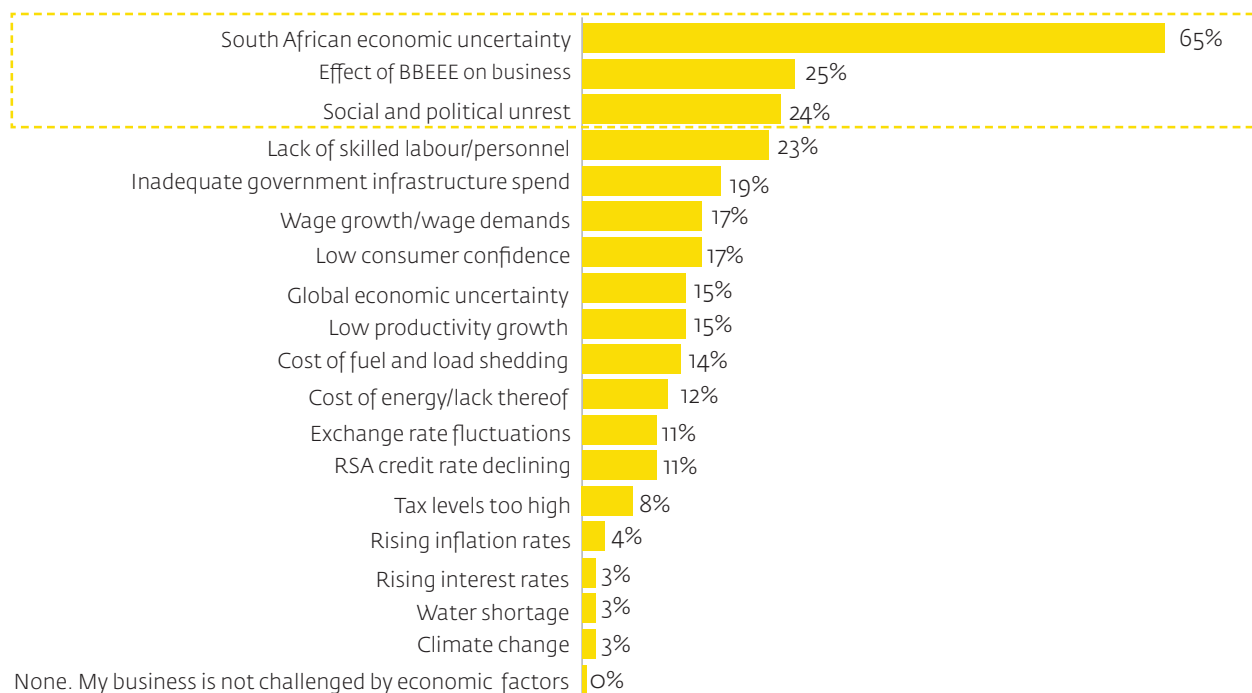


Figure 6: Economic factors impacting industry as perceived by the total sample group.

South African directors considered the following to be the top economic challenges facing their industry over the last four years.

	2016	2017	2018	2019
1 st	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty
2 nd	Exchange rate fluctuations	Effect of BBBEE on business	Social and political unrest	Effect of BBBEE on business
3 rd	Lack of skilled labour/personnel	Social and political unrest	Effect of BBBEE on business	Social and political unrest
4 th	Wage growth/wage demands	Lack of skilled labour/personnel	Social and political unrest	Lack of skilled labour/personnel
5 th	Social and political unrest	Inadequate government infrastructure spend	Low consumer confidence	Inadequate government infrastructure spend

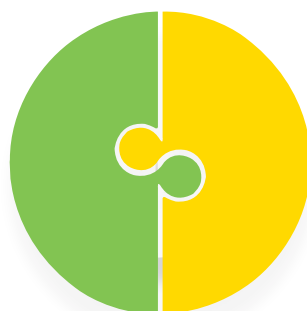


The next section presents some of the differences observed from the results displayed in Figure 6 in respect of the following categories ³:

IoDSA MEMBERS VERSUS NON-IODSA MEMBERS

IoDSA Members

IoDSA members rated the same top four economic challenges impacting their industry as the overall sample group, however they rated social and political unrest as a challenge that has more impact on their industry in comparison to the effects of BBBEE. Wage growth/wage demands and global economic uncertainty was more of a concern for IoDSA members than Non-IoDSA members.



Non-IoDSA Members

Same top factors, however, views on skilled labour were higher than social and political unrest. Compared to IoDSA members, they felt low consumer confidence and cost of fuel and load shedding impacted their industry more.

SECTOR

Ranking	Private	SMME	Public	Non-Profit
1	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty
2	Effect of BBBEE on business	Inadequate government infrastructure spend	Lack of skilled labour/personnel	Social and political unrest
3	Social and political unrest	Social and political unrest	Inadequate government infrastructure spend	Lack of skilled labour/personnel

All sectors shared similar views to the overall perception of the top four factors, with differences depicted above. The lack of skilled labour/personnel was a concern for all the sectors but only the Public and Non-Profit sectors placed this factor as one of their top three economic factors impacting their industry. In addition to the above, both the Public Sector and Non-Profit Sector viewed wage growth/wage demands as more of a challenge compared to the other Sectors. In addition, the Public Sector rated low consumer confidence a greater challenge in its top 5.

³ The shaded boxes in the sector and age tables highlight the key differences in sentiment in those categories compared to the overall top three business impediments depicted in Figure 6.



GENDER



With marginal differences between the rating of factors between male and female respondents, the latter were more concerned about lack of skilled labour/personnel impacting their industry than their male counterparts, who rated the effect of BBBEE as having a greater impact. In addition, female respondents found the effect of BBBEE on business just as impactful as global economic uncertainty on the industry.

AGE

Ranking	25-34	35-44	45-54	55+
1	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty	South African economic uncertainty
2	Wage growth/ wage demands Global economic uncertainty	Lack of skilled labour/personnel	Lack of skilled labour/personnel Social and political unrest	Effect of BBBEE on business
3	Effect of BBBEE on business	Effect of BBBEE on business	Low consumer confidence	Social and political unrest

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

Respondents across all of the age groups found that South African economic uncertainty was their top economic factor impacting their current industry. However, this rating is not as emphatic in the 35-44 age group as just less than half of the respondents aligned to this rating. The youth again had different views to the other ages, showing that their experiences and concerns are not shared by the older generations. In addition to the above the 25-34 age group equally rated as a 4th tier of concerns: lack of skilled labour/personnel, low consumer confidence, inadequate government infrastructure spend, RSA credit rate declining and tax levels too high. Whereas, the 45-54 age group felt the of impact of low consumer confidence on the industry was a greater challenge.

5.1 General perception on Business conditions

The overall sentiment around South African business conditions have decreased from 2018, however the sentiment ratings on the conditions remain unchanged. Over two thirds of South African directors feel most negative about the infrastructure in South Africa improving as well as the level of red tape and its impact on business decreasing over the next 12 months. Interestingly, a third of directors still felt slightly more positive/less negative that business prospects will improve compared to the other business conditions, *albeit* this business condition reflected the biggest shift in sentiment for directors this year, with a marked increase (20%) in directors going from being positive to negative.

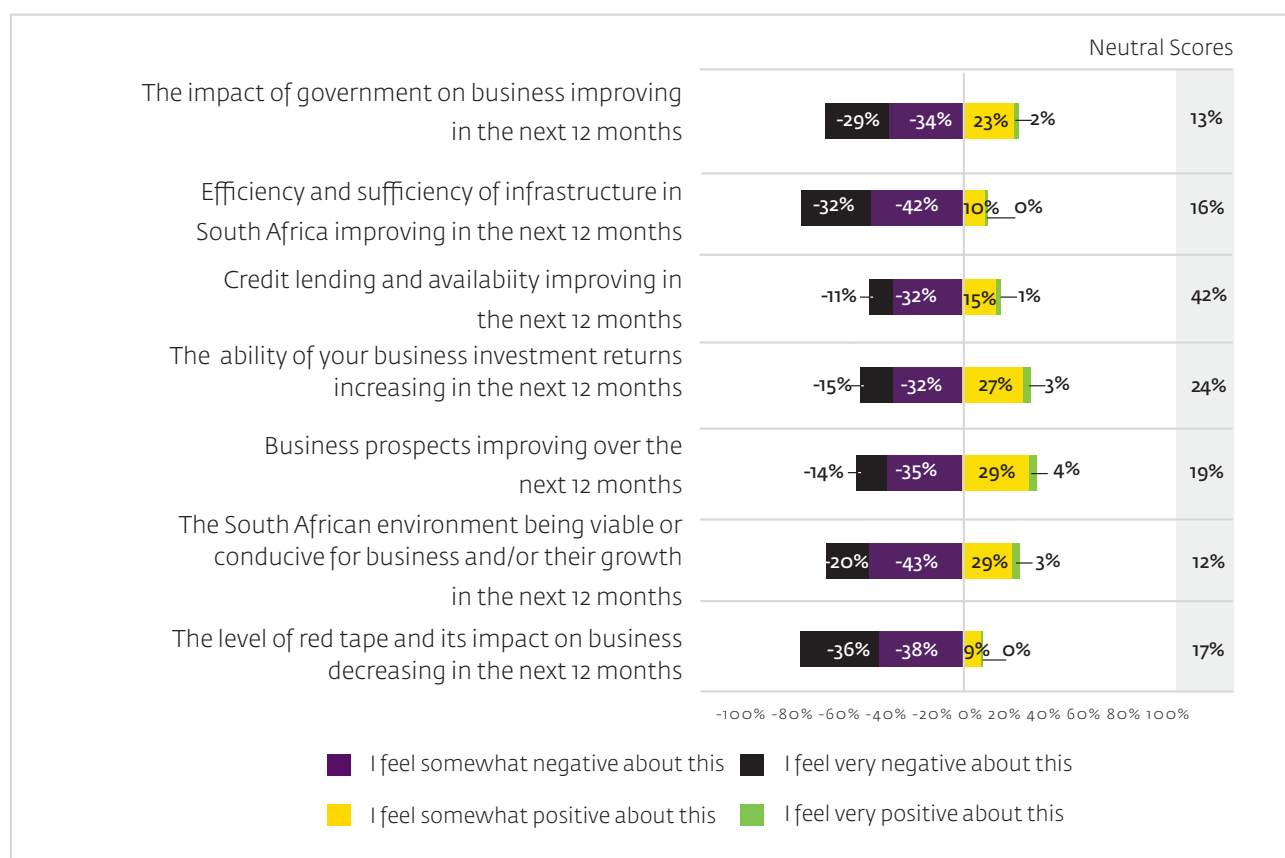


Figure 7: General Business perceptions of total sample



Key themes emerging from the business conditions as per demographic split.



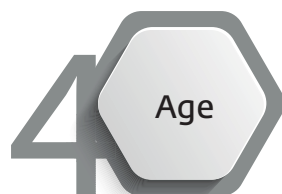
IoDSA and Non-IoDSA members shared similar sentiment towards business conditions, with both groups overall sentiment decreasing in 2019. Non-IoDSA members are generally more negative than IoDSA members, with the biggest shifts in increased negativity being displayed by Non-IoDSA members in 2019. Whereas IoDSA members neutral responses increased. Non-IoDSA members had the biggest decrease in sentiment around the efficiency and sufficiency of infrastructure in South Africa.



The Public sector reflected a marked difference in positive sentiment in relation to the other sectors. Overall, the majority of negative sentiment of directors across the sectors is towards the efficiency and sufficiency of infrastructure in South Africa and the level of red tape impacting business.



Female respondents were slightly less negative than their male counterparts across most of the factors, *albeit* a noticeable increase in positivity was seen, such as on business prospects, level of red tape and the South African environment being viable for business. There was no difference in sentiment between the genders in relation to the overall sentiment displayed above.



All ages showed similar overall sentiment to the group. Noticeably, however, the 25 -34 age group were more positive (50%) than negative (16%) around the ability of business investment returns increasing in the next 12 months. The over 55 respondent's sentiment saw an increase in negativity from 2018 (specifically around business prospects, business investments returns and level of red tap improving).



5.2 Business factors impacting business

The factors impacting the businesses of South African directors remains relatively unchanged in 2019, save for compliance with an over regulated environment being rated slightly higher than corruption this year. Poor economic conditions and poor consumer confidence continue to be the number one factor South African directors are concerned about. The ranking of factors impacting business changed in 2019 to some degree, with competitiveness in the market moving from 5th to 7th position; BBBEE moved up from 6th to 5th position; rising taxes went from being in the top half to the bottom half of factors and we saw the lack of strategic leadership at executive level move up the ranking in 2019.

What do you consider to be the three main business challenges currently facing your business?

TOTAL SAMPLE
(n=475)

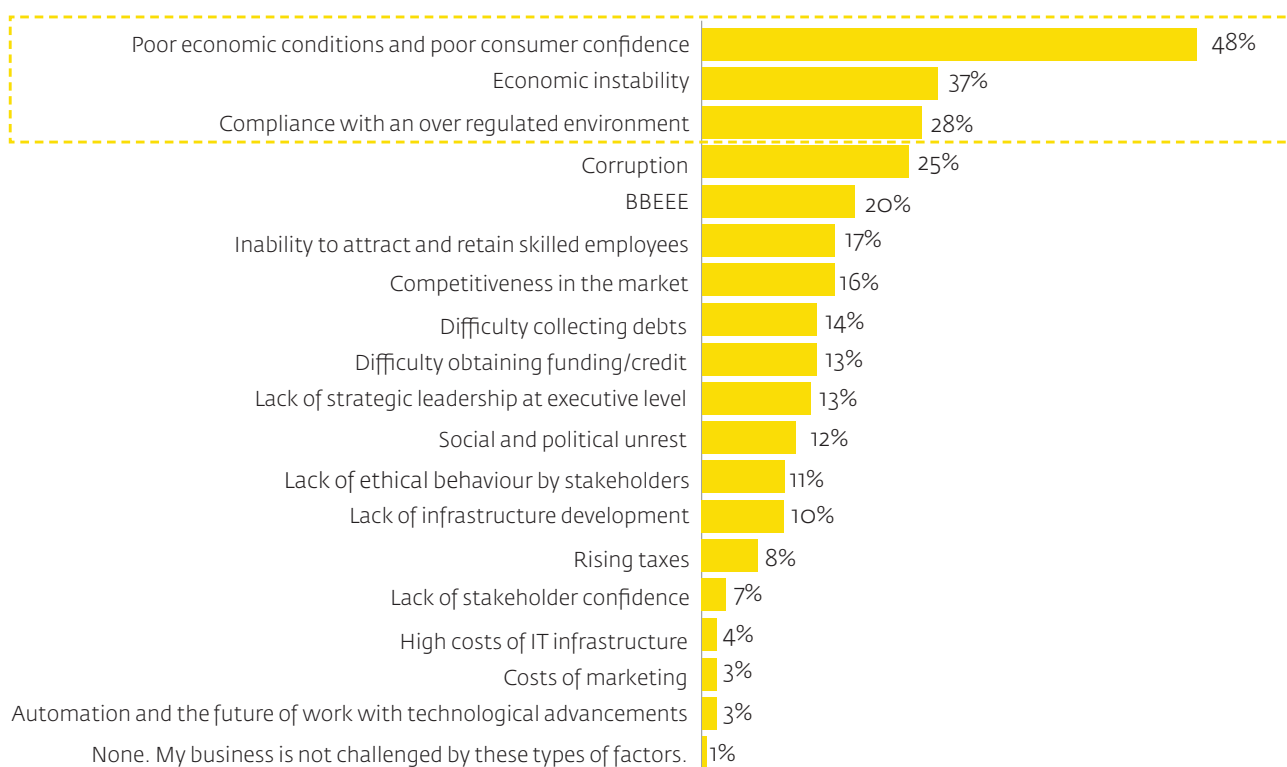


Figure 8: Economic factors impacting current business as perceived by the total sample group.



South African directors considered the following to be the top five business factors impacting their business over the last four years.

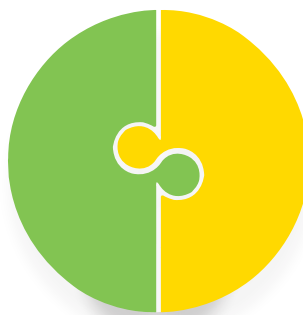
	2016	2017	2018	2019
1 st	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence
2 nd	Economic instability	Economic instability	Economic instability	Economic instability
3 rd	Compliance with an over regulated environment	Compliance with an over regulated environment	Corruption	Compliance with an over regulated environment
4 th	Corruption	BBBEE	Compliance with an over regulated environment	Corruption
5 th	Social and political unrest	Corruption	Competitiveness in the market	BBBEE

The next section presents some of the differences observed from the results displayed in Figure 8 in respect of the following categories ⁴:

IoDSA MEMBERS VERSUS NON-IODSA MEMBERS

IoDSA Members

The IoDSA members had the same top 5 business challenges, however they found the inability to attract and retain skilled employees more impactful than BBBEE on their business.



Non-IoDSA Members

Non-IoDSA members also shared similar views around the top 5 challenges, they however viewed BBBEE as more of a business challenge compared to corruption and the inability to attract and retain skilled employees.

⁴ The shaded boxes in the sector and age highlight the key differences in sentiment in those categories compared to the overall top three business impediments depicted in Figure 8.



SECTOR

Ranking	Private	SMME	Public	Non-Profit
1	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence	Compliance with an over regulated environment
2	Economic instability	Economic instability	Corruption	Lack of strategic leadership at executive level Economic instability Corruption
3	Compliance with an over regulated environment Competitiveness in the market	Corruption	Lack of strategic leadership at executive level	Inability to attract and retain skilled employees Social and political unrest

*Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.

As can be seen above, the Non-Profit sector relates a very different experience in relation to the other sectors, with compliance with an over regulated environment as its top business impediment. The Public Sector in addition also rated the inability to attract and retain skilled employees as a top factor (coming in 4th in their ranking). The SMME and Public sector's found corruption to be in their top three business factors impacting their business. Both the Public and Non-Profit sectors found the lack of strategic leadership at executive level has having an impact on their business more so than the other sectors.

GENDER



Whilst both genders shared the same top three challenges as the overall sample, female respondents considered economic instability more as a business challenge than poor economic conditions and poor consumer confidence compared to their male counterparts. Both genders also considered corruption as a top factor, however female respondents felt the inability to attract and retain skilled employees and competitiveness in the market was as much of a challenge whereas male respondents saw BBBEE as more of a challenge to them.

"Public Sector found corruption and the lack of strategic leadership at executive level as major factors impacting business"

"Both Non-Profit and Public Sector feel the inability to attract and retain skilled employees is an impediment to their business"



AGE

Ranking	25-34	35-44	45-54	55+
1	Difficulty obtaining funding/credit Economic instability Corruption	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence
2	Competitiveness in the market	BBBEE	Economic instability	Economic instability
3	Inability to attract and retain skilled employees Difficulty collecting debt Poor economic conditions and poor consumer confidence Compliance with an over regulated environment Social and political unrest BBBEE Automation and the future of work with technological advancements	Economic instability	Compliance with an over regulated environment	Compliance with an over regulated environment

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

Across the age groups, South African economic uncertainty was rated the top economic factor currently impacting business, but this was evidently more of a concern for those aged 45 and above with well over two thirds of the respondents rating this as number one. The youngest age group (25-34) differed significantly from the other age groups, which shows the differing views of younger generations and the challenges which organisations need to consider as the stakeholder age groups change.

Compared to 2018, the 25-34 age group challenges have changed significantly with a number of issues now equally impacting their ability to do business in South Africa. A noticeable difference in the ages, is that the 35-44 age group saw BBBEE as far more of a challenge to their business compared to the other age groups.



5.3 Business factors impacting business industry

The top two business factors impacting current industry mirrored those that impact business, however, respondents rated corruption above compliance with an over regulated environment as the third most impactful factor on their industry. 2019 also saw an increased percentage of directors rating social and political unrest as a factor impacting industry. The results show us that there is a direct correlation between business and industry.

What do you consider to be the three main business challenges currently facing your industry?

TOTAL SAMPLE
(n=475)

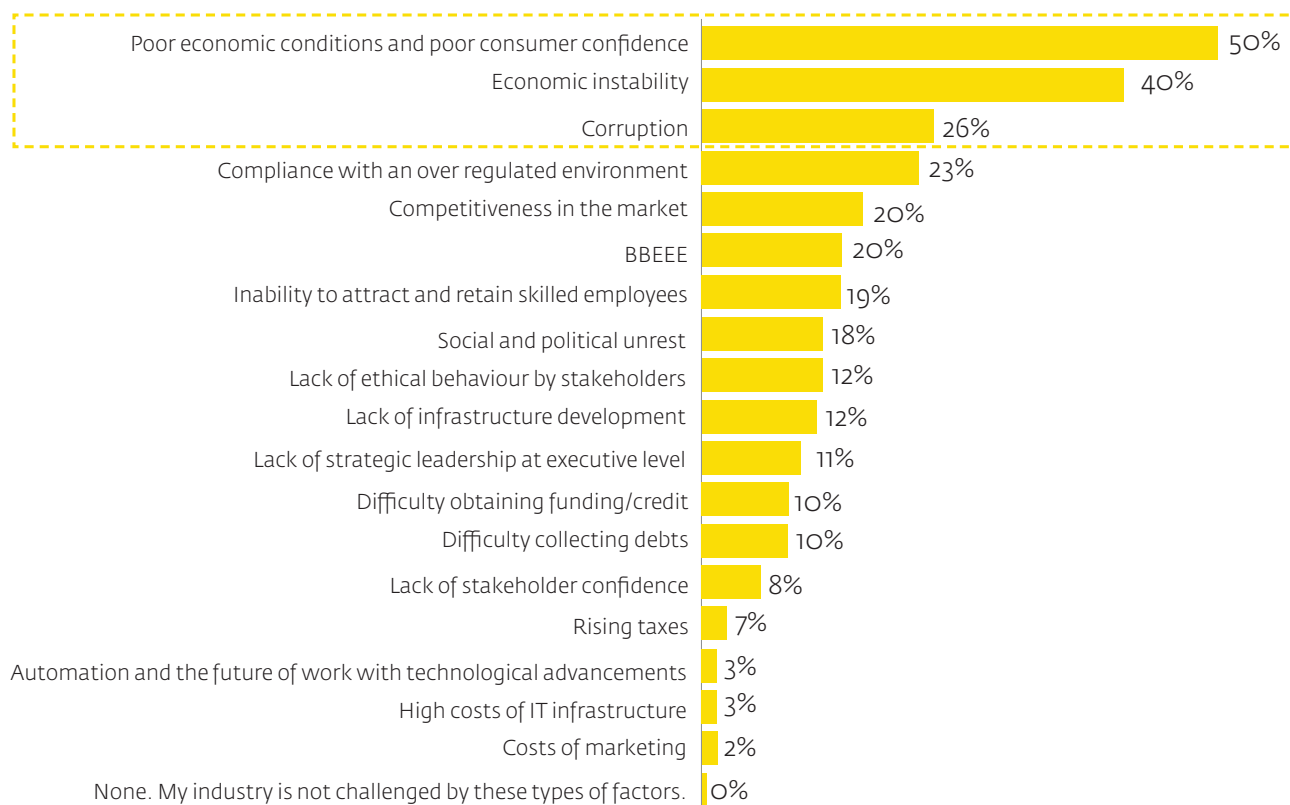


Figure 9: Business factors impacting industry as perceived by the total sample group

Compared to 2018, we saw an increase in ranking of social and political unrest and the rise of lack of ethical behavior, lack of infrastructure development and lack of executive strategic leadership. This may be as result of the number of corporate governance related issues beings discovered in large South African organisations. Rising taxes this year declined in ranking towards the bottom of the list.



South African directors considered the following to be the top five factors impacting the industry in which they operate over the last four years.

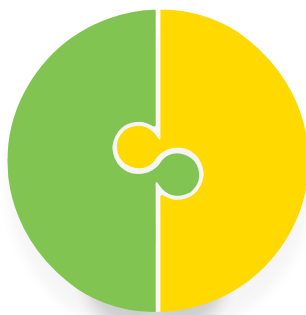
	2016	2017	2018	2019
1 st	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence
2 nd	Economic instability	Economic instability	Economic instability	Economic instability
3 rd	Compliance with an over regulated environment	Compliance with an over regulated environment	Corruption	Compliance with an over regulated environment
4 th	Corruption	Corruption	Competitiveness in the market	Corruption
5 th	Social and political unrest	Competitiveness in the market	Inability to attract and retain skilled employees	Competitiveness in the market & BBEE

The next section presents some of the differences observed from the results displayed in Figure 9 in respect of the following categories⁵:

IoDSA MEMBERS VERSUS NON-IODSA MEMBERS

IoDSA Members

IoDSA members shared the same views as the total sample, however the inability to attract and retain skilled employees was more impactful to them than Non-IoDSA members.



Non-IoDSA Members

Non-IoDSA members differed slightly to the above, ranking BBEE as their top 3rd factor above that of corruption.

⁵ The shaded boxes in the sector and age tables highlight the key differences in sentiment in those categories compared to the overall top three business impediments depicted in Figure 9.



SECTOR

Ranking	Private	SMME	Public	Non-Profit
1	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence	Economic instability Inability to attract and retain skilled employees
2	Economic instability	Economic instability	Corruption	Poor economic conditions and poor consumer confidence
3	Compliance with an over regulated environment Corruption	Corruption	Economic instability	Corruption

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

Besides the above depicted differences, all but the Private Sector ranked social and political unrest as a top challenge (i.e more than 20% felt this way). The Private Sector instead viewed BBBEE and competitiveness in the market as more of a challenge to them. Public Sector also felt that the inability to attract and retain skilled employees was a challenge similar to the Non-Profit Sector (although not as high whereas last year it was ranked second). SMME's also shared the Private Sector's sentiment around compliance with an over regulated environment.

GENDER



This year we see a shift in rankings amongst the genders.

	Female	Male
1	Poor economic and poor consumer confidence	Economic instability
2	Economic instability	Poor economic and poor consumer confidence
3	Corruption	Competitiveness in the market

Female respondents saw compliance with over regulated environment more of a concern than corruption. In addition unlike their male counterparts, they viewed inability to attract and retain skilled employees as also a challenge.

" Private Sector views BBBEE & competitiveness in the markets as more of a challenge than social and political unrest"



AGE

Ranking	Private	SMME	Public	Non-Profit
1	Competitiveness in the market Economic instability	Economic instability	Poor economic conditions and poor consumer confidence	Poor economic conditions and poor consumer confidence
2	Inability to attract and retain skilled employees Difficulty obtaining funding/credit Difficulty collecting debt Corruption BBBEE	Poor economic conditions and poor consumer confidence	Economic instability	Economic instability
3	Rising taxes Poor economic conditions and poor consumer confidence Social and political unrest	BBBEE	Corruption	Corruption

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

Unlike in previous years, in 2019 directors aged 25-34 were unable to isolate three factors that have the greatest impact but rather felt afflicted by a myriad of almost equally rated challenges impacting their current industry. The other age groups were impacted by the same challenges, except for the 35-44's who felt BBBEE was more of a challenge to them. Unlike the younger generation, the rest of the age groups see competitiveness in the market (23%) as a challenge. The over 55's were the only group who had a higher scoring for social and political unrest. The under 34's were the only group who rated difficulty obtaining funding/credit and collecting debts as a major challenge.

6. GOVERNANCE



6.1 General perception on Governance conditions

South African directors continue to feel more positive than negative around governance conditions in their business. This trend has continued since inception of the index in 2016, *albeit* slight shifts in positivity over the years. As is seen this year, where there was an overall slight decrease in positivity across the conditions except for the board adequately setting the tone for ethical conduct (which saw an increase in positive sentiment). The general perception on governance conditions overall mean score thus decreased from 3.5 to 3.4.

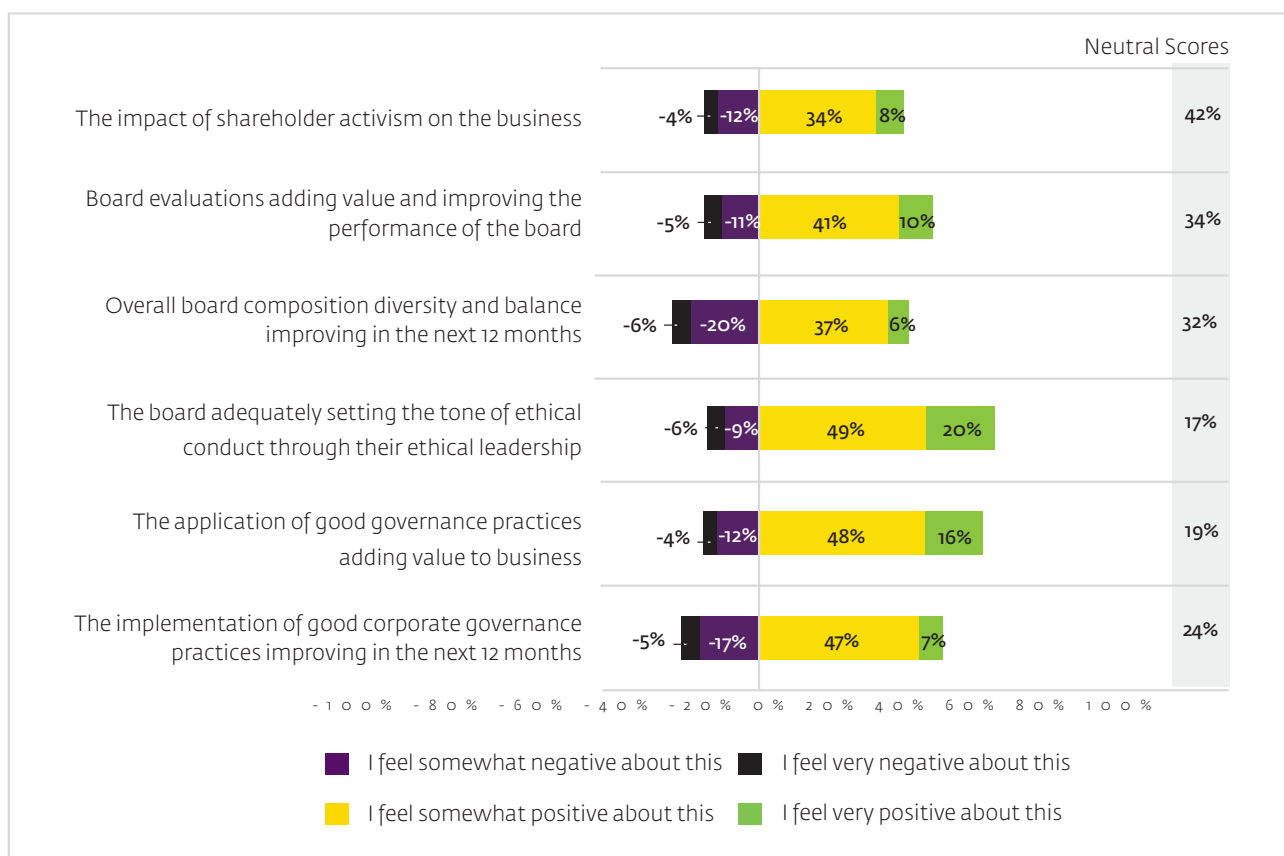


Figure 10: General Governance perceptions of total sample

Since 2016, two thirds of respondents felt most positive towards the application of good governance practices adding value to the business, and while the sentiment remains very positive for this condition, 2019 saw a shift with respondents feeling more positive towards the board adequately setting the tone of ethical conduct through their ethical leadership (which always closely followed second in the previous years). These results seem to indicate that South African directors are positive that governance practices can improve and that board members do have a large influence and ability to set the tone.

In 2019, we also saw an increase in neutral responses across the conditions above, with respondents being neither positive nor negative around the impact of shareholder activism on the business. South African directors are the least positive about overall board composition, diversity and balance improving in the next 12 months.

"South African directors feel most positive that boards have the ability and influence to set the tone of ethical conduct through their ethical leadership."



Key themes emerging from the governance conditions per demographic split.



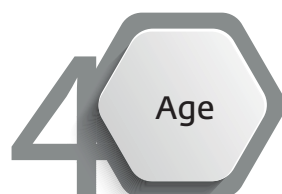
Both IoDSA members and Non-IoDSA members share the same overall sentiment above. IoDSA members are noticeably more positive than Non-IoDSA members, with Non-IoDSA members showing the most drop in positive sentiment this year. IoDSA members showed the biggest drop in positivity around the implementation of good governance practices improving in the next 12 months, whereas Non-IoDSA members dropped in their view around the application of good governance practices adding value in the business.



Respondents across all the sectors showed positive sentiment towards governance conditions. Directors from the Public (77%) and Non-Profit (82%) sectors had the most positive response for the application of good governance practices adding value to business. The Private (68%) and SMME (65%) sectors felt most positive around the board adequately setting the tone of ethical conduct through their ethical leadership. The SMME sector with respect to application of good governance practices adding value, had a significant increase in neutral and negative responses in 2019. This year we saw the Public sector showing a significant increase in somewhat positive ratings, making them the most positive sector around governance conditions in business.



Female respondents are more positive than male respondents in their perceptions of governance conditions. An increase in positivity by female respondents was seen specifically in respect to the application of good governance practices adding value to business and impact of shareholder activism, compared to their male counterparts whose positivity in these areas decreased. Both male and female respondents felt least positive about the overall board composition, diversity and balance improving in the next 12 months.



Although there was a general positive sentiment across the age groups, directors aged 55+ tended to be more negative overall, particularly with respect to the application of good governance practices adding value to business. Whereas the 35 to 54 year olds felt the most positive on this area and this governance perception did not draw any negative sentiment from the 25-34 age group at all. The 25 to 34 and over 55 age groups felt the most positive about the board adequately setting the tone of ethical conduct through their ethical leadership, and again the below 34's had zero negativity on this area. Interestingly, the young age group had zero very negative sentiment raised against all the governance conditions in this year's survey. Like the other categories all ages were least positive about the overall board composition, diversity and balance improving in the next 12 months.

"Public Sector is most positive around governance conditions in business and that good governance practices add value to business"



6.2 Governance factors impacting business

Respondents demonstrated a dynamic shift in mind set in relation to governance factors impacting their business in 2019. Although an increased percentage of directors rated a lack of sustainable thinking as the number one factor once again, a lack of understanding (King IV) and unethical behaviour (bribery and corruption) have been notably elevated since 2017-2018, to the top factors in 2019. The perception relating to governance being too costly moved down the rankings in 2019.

What do you consider to be the three main governance challenges currently facing your business?

TOTAL SAMPLE
(n=475)

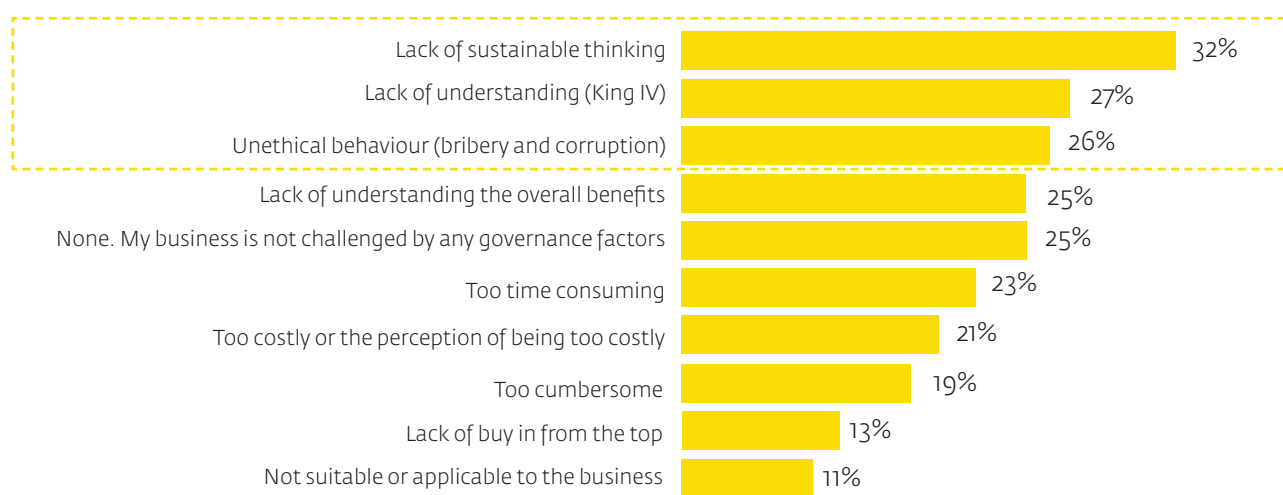


Figure 11: Governance challenges currently facing business as perceived by the total sample group.

How to address these challenges:

- Attend IoDSA training to gain better understanding of King IV and how to apply best governance practices in your organisation, as well the overall benefits.
- Put in place a Code of Conduct and Ethics to which the board and organisation must adhere to and be held accountable against. Undergo and/or appoint IoDSA Certified Director or Chartered Director(SA)'s on to boards to ensure the board has the right skills and because IoDSA designees are required to uphold the IoDSA member code of conduct.



South African directors consider the following to be the top five governance challenges impacting their business over the last four years.

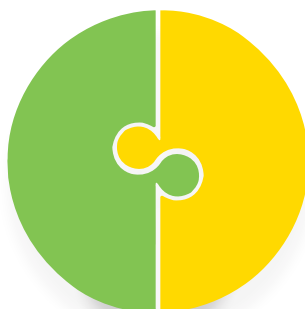
	2016	2017	2018	2019
1 st	Lack of understanding the overall benefits	Too costly of the perception of being too costly	Lack of sustainable thinking	Lack of sustainable thinking
2 nd	Lack of sustainable thinking	Lack of understanding the overall benefits	Too costly of the perception of being too costly	Lack of understanding (King IV)
3 rd	Too costly of the perception of being too costly	Lack of sustainable thinking	Lack of understanding (King Report principles) and overall benefits	Unethical behaviour (bribery and corruption)
4 th	Too time consuming	Lack of understanding (King Report principles)	Unethical behaviour (bribery and corruption)	Lack of understanding the overall benefits
5 th	Lack of understanding (King III)	Too time consuming	Too cumbersome	None. My business is not challenged by any governance factors

The next section presents some of the differences observed from the results displayed in Figure 11 in respect of the following categories⁶:

IoDSA MEMBERS VERSUS NON-IODSA MEMBERS

IoDSA Members

IoDSA members shared the same top 5 challenges as the overall group above, with the exception that they viewed the lack of understanding the overall benefits as more of a challenge than unethical behavior in the business.



Non-IoDSA Members

The trend continues with Non-IoDSA member's views on governance differing to that of IoDSA members. 30% of Non-IoDSA members stated that their business is not challenged by any governance factors. Non-IoDSA members feel that governance is too time consuming and cumbersome which is more of a challenge over unethical behavior and lack of understanding the overall benefits.

⁶ The shaded boxes in the sector and age tables highlight the key differences in sentiment in those categories compared to the overall top three business impediments depicted in Figure 11



SECTOR

Ranking	Private	SMME	Public	Non-Profit
1	Lack of sustainable thinking	Unethical behaviour (bribery and corruption)	Lack of sustainable thinking	Lack of sustainable thinking
2	Lack of understanding the overall benefits	Lack of sustainable thinking	Lack of understanding (King IV)	Lack of understanding (King IV)
3	Too costly or the perception of being too costly Too time consuming Unethical behaviour (bribery and corruption)	Too time consuming Lack of understanding (King IV)	Unethical behaviour (bribery and corruption)	Lack of understanding the overall benefits

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

Unethical behaviour, which has always been a challenge for Public sector, has for the first time since the start of the survey seen as the top governance challenge for the SMME sector and part of the top 3 current governance challenges by the Private Sector. There has been a slight increase in the number of directors in the Private and SMME sectors who do not believe that their business is challenged by any governance factors.

GENDER



The genders shared similar sentiment, with the exception that female respondents indicated that they are faced with the lack of understanding the overall benefits as more of a challenge than unethical behaviour. Male respondents indicated that in addition to the general top 3 challenges, they felt that governance was too time consuming. In addition, a third of female respondents did not consider their business to be challenged by any governance factors.



AGE

Ranking	25-34	35-44	45-54	55+
1	Too time consuming	Lack of sustainable thinking	Lack of sustainable thinking	Lack of sustainable thinking
2	Lack of understanding (King IV)	Lack of understanding (King IV)	Unethical behaviour (bribery and corruption)	Lack of understanding (King IV) Unethical behaviour (bribery and corruption) Lack of understanding the overall benefits
3	Lack of sustainable thinking	Too time consuming	Lack of understanding (King IV)	Too time consuming Too costly or the perception of being too costly

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

All but the 35-44 age group viewed unethical behaviour and lack of understanding the overall benefits of good governance in their top 4 challenges. After two years of not considering governance practices too time consuming, the 25-34 age group has found it to be the challenge that impacts their business the most in 2019 and the only age group this year who saw this as a challenge. Almost a third of the respondents aged 44-45 and 55+ considered their business to not be challenged by any governance factors.

It seems that the older age groups are faced with a number of equal challenges. This trend of equal challenges has been seen across the governance section rankings by all the above categories, which seems to indicate that in general South African directors are currently dealing with a number of governance challenges within their businesses.



6.3 Governance factors impacting industry

Respondents have rated the same top governance conditions impacting industry since 2016, *albeit* in different positions. Unethical behaviour (bribery and corruption) remains the top governance factor currently impacting industry, with an increase in sentiment from 2018. In 2019, South African directors had a shift in sentiment with the lack of sustainable thinking being seen as more of a governance challenge this year than the lack of understanding (King IV).

What do you consider to be the three main governance challenges currently facing your industry?

TOTAL SAMPLE
(n=475)

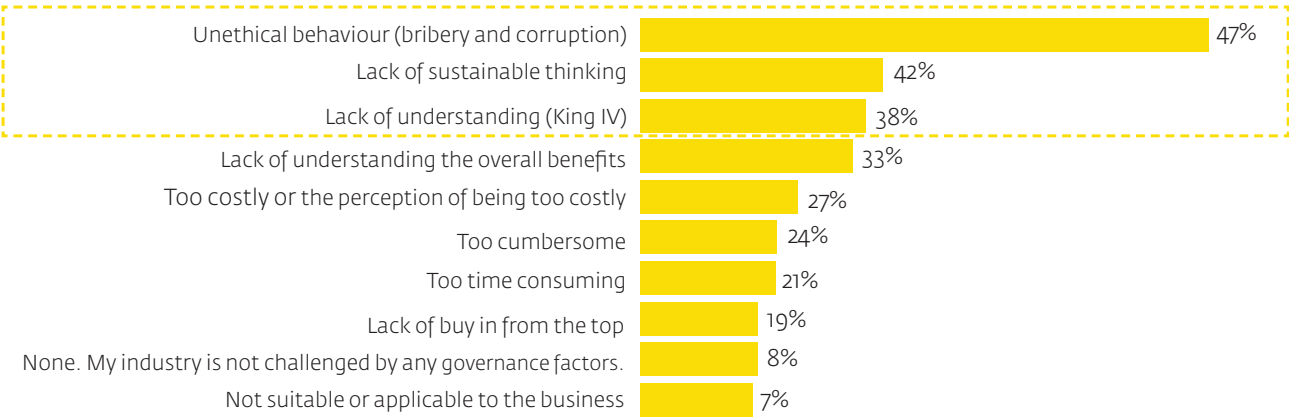


Figure 12: Governance challenges currently facing industry as perceived by total sample



South African directors considered the following to be the top governance challenges impacting the industry in which they operate over the last four years.

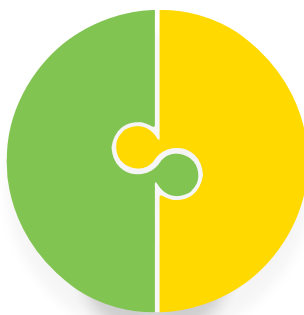
	2016	2017	2018	2019
1 st	Unethical behaviour (bribery and corruption)	Lack of understanding (King Report principles)	Unethical behaviour (bribery and corruption)	Unethical behaviour (bribery and corruption)
2 nd	Lack of sustainable thinking	Unethical behaviour (bribery and corruption)	Lack of understanding (King Report principles)	Lack of sustainable thinking
3 rd	Lack of understanding the overall benefits	Lack of understanding the overall benefits	Lack of sustainable thinking	Lack of understanding (King IV principles)
4 th	Too costly of the perception of being too costly	Too costly of the perception of being too costly	Lack of understanding the overall benefits	Lack of understanding the overall benefits
5 th	Lack of understanding (King III)	Too time consuming	Too costly of the perception of being too costly	Too costly of the perception of being too costly

The next section presents some of the differences observed from the results displayed in Figure 12 in respect of the following categories⁷:

IoDSA MEMBERS VERSUS NON-IODSA MEMBERS

IoDSA Members

IoDSA members shared the same sentiment as the overall top governance challenges listed above.



Non-IoDSA Members

Non-IoDSA members shared the similar top 3 challenges, however they felt that the lack of understanding (King IV) was more of a challenge in the industry they operate compared to the lack of sustainable thinking. In addition, they saw governance as being too time consuming and cumbersome as more of challenge than the lack of understanding the overall benefits and the perception of it being too costly to implement.

⁷ The shaded boxes in the sector and age tables highlight the key differences in sentiment in those categories compared to the overall top three business impediments depicted in Figure 12



SECTOR

Ranking	Private	SMME	Public	Non-Profit
1	Unethical behaviour (bribery and corruption)	Unethical behaviour (bribery and corruption)	Unethical behaviour (bribery and corruption)	Unethical behaviour (bribery and corruption)
2	Lack of sustainable thinking	Lack of sustainable thinking	Lack of sustainable thinking	Lack of sustainable thinking
3	Lack of understanding (King IV)	Lack of understanding (King IV)	Lack of understanding (King IV)	Lack of understanding (King IV) Lack of understanding the overall benefits

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

As can be seen from the above table, the sectors are all experiencing the same governance challenges (which have not changed significantly over the last few years). This strengthens the indication that these are the main governance challenges currently impacting South Africa. Further to the 3 challenges set out above, all the sectors also considered the lack of understanding the overall benefits of good governance as a challenge they have seen. The SMME and Non-Profit Sectors specifically are experiencing challenges with the lack of buy in from the top, whereas the Private and Public Sector feel governance is too costly.

GENDER



Both genders were aligned in their sentiment on the governance challenges impacting their current industry as per the overall top challenges in Figure 12. Female respondents however considered the lack of understanding (King IV) as more of a challenge than the lack of sustainable thinking compared to their male respondents. In addition, both genders viewed governance as being too costly and the lack of understanding the overall benefits of governance as challenges they also face.



AGE

Ranking	25-34	35-44	45-54	55+
1	Unethical behaviour (bribery and corruption)	Unethical behaviour (bribery and corruption) Lack of understanding (King IV)	Unethical behaviour (bribery and corruption)	Unethical behaviour (bribery and corruption)
2	Too time consuming	Lack of sustainable thinking	Lack of sustainable thinking	Lack of sustainable thinking
3	Too cumbersome Lack of understanding (King IV) Lack of sustainable thinking	Too costly or the perception of being too costly Lack of understanding the overall benefits	Lack of understanding (King IV)	Lack of understanding (King IV)

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

All age groups shared similar governance challenges overall, with slight differences in ranking. The under 35's appear to have a number of governance challenges impacting the industry in which they operate. In addition to the above challenges, all the age groups also felt that the lack of understanding the overall benefits of governance was a challenge they faced. There was a large number of 45-55's who viewed governance as being too costly as a challenge as well.

7. DIRECTORSHIP



7.1 General perception on Directorship conditions

South African directors continue to be overall more positive about directorship conditions in South Africa, *albeit* a slight decrease in positivity in 2019 with the mean score dropping from 3.3 to 3.2. Although continuous professional development impacting positively on-board performance was for a fourth consecutive year the most positive directorship perception, there was a decrease in very positive sentiment this year and an increase in neutral and somewhat negative sentiment. South African directors are the least positive around the suitability of skills, experience and independence of individuals serving on boards. When it comes to D&O insurance and director remuneration, South African directors are neither positive nor negative.

How do you feel about each of the following?

TOTAL SAMPLE
(n=475)

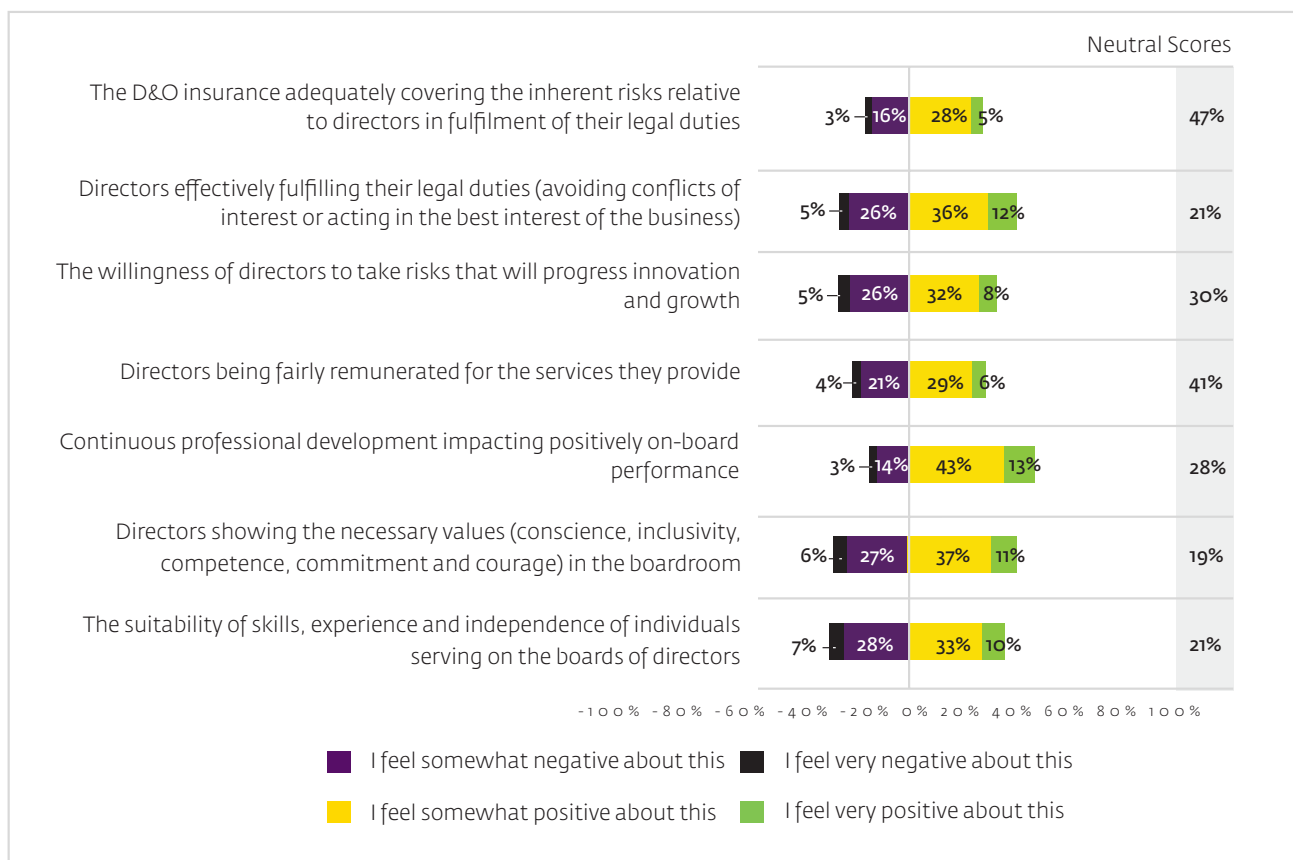


Figure 13: General Directorship perceptions of total sample



Key themes emerging from the governance conditions per demographic split



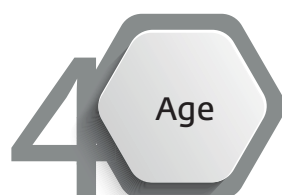
Both IoDSA and Non-IoDSA members are aligned and share the same sentiments depicted above in Figure 13. Non-IoDSA members showed an increase in positive sentiment this year and they did not have any “very negative” sentiment ratings for any of the director conditions, compared to IoDSA Members. Resulting in Non-IoDSA members being more overall positive than IoDSA members in 2019.



The Sectors shared the same sentiment as per the above Figure 13 with regard to their most positive and least positive director conditions. Unlike the other Sectors, the Non-Profit Sector is more negative than positive around the suitability of skills, experience and independence of individuals serving on boards and in respect to directors showing necessary values in the board room. The SMME sector shares the same overall negative sentiment around the suitability of individuals serving on boards.



Both male and female respondents shared the same sentiment as per the overall group findings above, with the exception that females were more positive than neutral around the adequacy of D&O insurance. Female respondents were overall generally more positive than their male counterparts.



Overall all the age groups are generally more positive than negative around directorship conditions in South African in line with overall group findings depicted in Figure 13. Key differences noted amongst the age groups included:

- 25-34 age group is overwhelmingly more positive (75%) about directors fulfilling their legal duties compared to the other age groups (45% difference between perception ratings)
- In comparison, the 25-44 and over 55 age groups are most positive about continuous professional development impacting positively on board performance. And the 45-55 age group was most positive about directors showing the necessary values in the board room.



7.2 Factors influencing the willingness to serve on a board

With the current South African business climate being as it is, it is not surprising there was an increase in the number of respondents (from 65% in 2018 to 71% in 2019) who felt that ethical behaviour would be the number one factor that would influence their willingness to serve on a board. The same factors have appeared at the top of the list since 2016, *albeit* in different positions. Compared to 2018, South African directors have indicated that a balance of power is no longer as much of a determining factor (as it is now ranked in the lower third of the factors) compared to stakeholder confidence (which is gone up the ranking now).

What do you consider to be the five main factors influencing your willingness to serve on board?

TOTAL SAMPLE
(n=475)

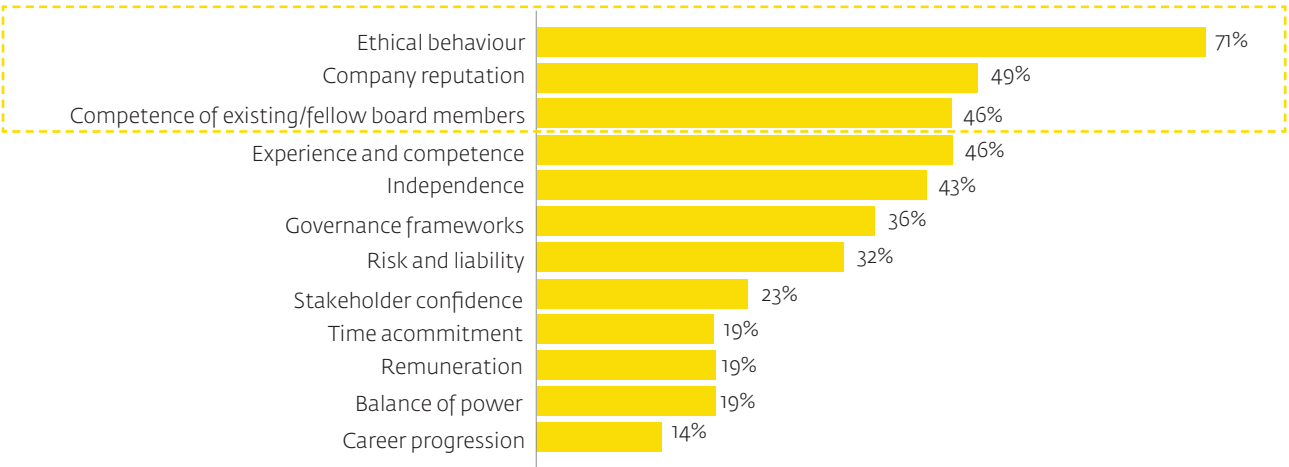


Figure 14: Factors influencing willingness to serve on a board as perceived by total sample group



South African directors considered the following to be the top five business factors impacting their business over the last four years.

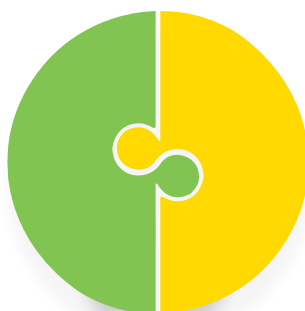
	2016		2017		2018		2019
1 st	Experience and competence		Ethical behaviour		Ethical behaviour		Ethical behaviour
2 nd	Ethical behaviour		Experience and competence		Experience and competence		Company reputation
3 rd	Company reputation		Company reputation		Competence of existing/fellow board members		Competence of existing/fellow board members
4 th	Competence of existing/fellow board members		Competence of existing/fellow board members		Company reputation		Experience and competence
5 th	Independence		Independence		Independence		Independence

The next section presents some of the differences observed from the results displayed in Figure 14 in respect of the following categories⁸:

IoDSA MEMBERS VERSUS NON-IODSA MEMBERS

IoDSA Members

Both IoDSA and Non-IoDSA members have rated ethical behavior as the main factor influencing their willingness to serve on a board. However, IoDSA members perceived competence of existing/fellow board members and independence to be more influencing factors on their decision to serve on a board than their own experience and competence.



Non-IoDSA Members

Non-IoDSA members placed more emphasis on their own experience and competence than on the company's reputation and the competence of existing/fellow board members, when making considering whether to serve on a board or not.

⁸ The shaded boxes in the sector and age tables highlight the key differences in sentiment in those categories compared to the overall top three business impediments depicted in Figure 14



SECTOR

Ranking	Private	SMME	Public	Non-Profit
1	Company reputation	Ethical behaviour	Ethical behaviour	Ethical behaviour
2	Competence of existing/fellow board member	Company reputation Competence of existing/fellow board members	Independence	Experience and competence
3	Experience and competence	Independence Experience and competence	Experience and competence	Competence of existing/fellow board member

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

Overall all the sectors shared similar sentiment around what are the main 5 factors they would consider when considering whether to server on board, *albeit* in different order of importance. Key differences where noted in the Public and SMME sectors:

- The Public Sector was the only sector who did not feel ethical behavior was the top factor that would impact their decision and ranked ethical behavior as the 5th factor they would consider, above independence.
- The SMME Sector considered governance frameworks to be more important (5th place) than the competence of existing/fellow board members (7th place), which was ranked after risk and liability (6th place) for them.
- In addition to the above factors, all the sectors felt that the governance frameworks should also be considered when making a decision.

GENDER



Both genders rated ethical behavior as their top factor influencing their willingness to serve on a board. Male respondents considered company reputation to be the next factor most likely to sway their willingness to serve on a board, but female respondents felt they would be more influenced by the competence of existing/fellow board members.



AGE

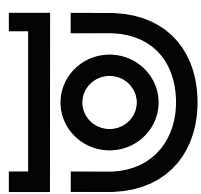
Ranking	25-34	35-44	45-54	55+
1	Experience and competence	Ethical behaviour	Ethical behaviour	Ethical behaviour
2	Ethical behaviour Remuneration	Experience and competence Competence of existing/ fellow board members	Company reputation	Company reputation
3	Career progression	Company reputation	Lack of understanding (King IV)	Lack of understanding (King IV)

**Instances where more than one challenge is listed per tier denotes equal ranking of those challenges in the overall results.*

All the age groups except for the 25-34-year-old age group rated their top three directorship factors quite similar to the overall sample. The disparity between the younger generation and the rest of the age groups paints a picture of what is more important to younger South African directors entering the directorship space. It appears the younger directors are seeing directorship as a career or profession. The under 35's did however rank independence and the competence of existing/fellow boards thereafter in 4th and 5th position.

NOTES

[illegible]



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