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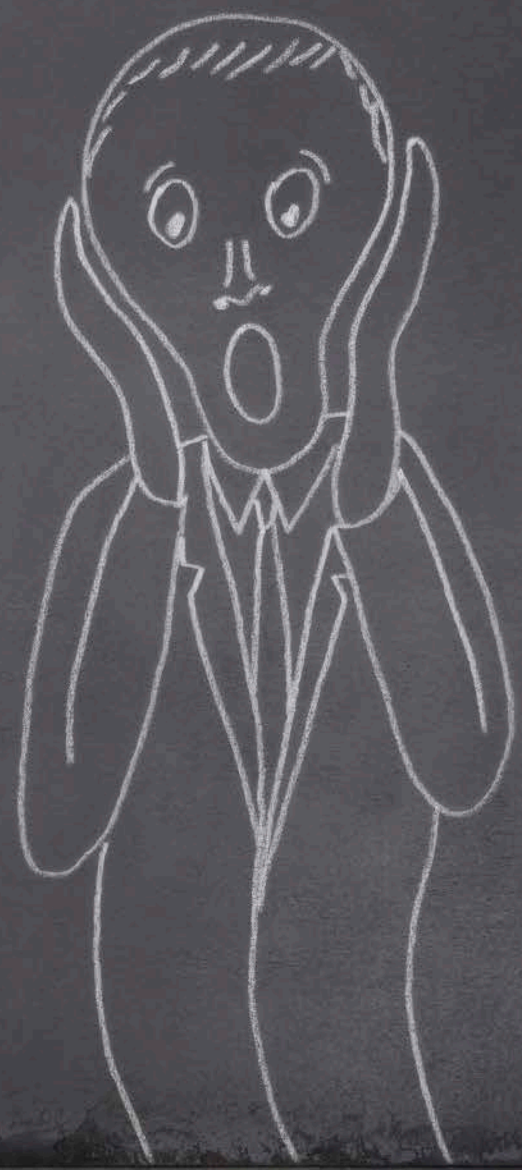
Your platform for thought leadership

# ETHICS

## HAVE WE LOST HOPE?



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**A COMMITMENT TO PROFESSIONAL PUBLISHING**
The publishers of this magazine are members of the Magazine Publishers' Association of South Africa. They have made a commitment to:
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- Publish the magazine timeously
- Open their distribution records for audit by the Audit Bureau of Circulation

***Whenever I ask Siri for directions or a recommendation, I also ask her a trick question.***
***Her answers are usually wacky.***
***She scolds me for cursing, which I love, but she has no problem with ethics.***
***If I say, 'Remind me to rob a bank at 3 P.M.,' she responds,***
***'Here's your reminder for today at 3 P.M.: Rob a bank. Shall I create it?'***

*– Elizabeth Diller – Architect and designer*

Ethics, derived from the Greek 'ethos', meaning 'character' or 'moral nature', is a human trait and can be seen as elevating man from machines and animals. Ethics, governance and reporting are dominant themes in this edition. Why? The very fibre of our society is being eroded through mismanagement and corruption. The public are demanding that the rot be stopped, and that action be taken. Our leaders, political and corporate, who should be the custodians and stewards of society, are mercurial in their defence, with pleas of innocence or ignorance, accompanied by complete denials of responsibility when accused of wrong-doing, yet in most instances, it is likely to be criminal or at best, dare I say it, incompetence.

Our cover story, entitled '*Ethics | Have we lost hope?*' by Terrance Booysen and peer reviewed by David Loxton, lays out the troubling state of ethics in our society and reiterates the concern that leaders must lead by example, and not merely pay lip-service to corporate governance, by adhering to the King IV principles of; acting with integrity, competence, responsibility, accountability, fairness and transparency.

Professor Mark Graham in his article '*Companies don't take Corporate Governance seriously!*' emphasises the need for good governance in order to avoid debacles like Steinhoff or African Bank. Following on from this, Frank Burgers raises the interesting point of ethical enlightenment by making King IV part of corporate DNA in his article '*Millennials key to enforcing King IV*'.

Tying this together is our feature entitled '*XBRL| the NEW REPORTING STANDARD*'. Now a requirement for qualifying entities, this is a positive regulatory development that the CIPC has adopted, in the wake of global trends to close the numerous loopholes that reporting entities have used to manipulate financial reports for nefarious purposes.

***"Ethics is knowing the difference between what you have a right to do and what is right to do."***

*Potter Stewart – Associate Justice of the United States Supreme Court*

Enjoy the read. James

# HISENSE 100" 4K LASER TV

Hisense has launched their 4K Laser TV in South Africa.

Combining a high-resolution short-throw projector, integrated JBL home theatre sound system, wireless subwoofer and a 100-inch screen, this latest evolution in TV means that watching sport, movies and series will be better than ever. The Hisense 100" laser TV offers an enormous anti-reflective screen which evenly distributes colour and light to deliver a crisp, bright picture, regardless of ambient light – making it ideal for use in any room.

Available from dealers countrywide.
More information *https://hisense.co.za/*

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Beats Audio by Dr Dre has a long history of top quality stylish headphones, and from the first Beats Studios, they have offered high performance with a specific style that favoured a bass-heavy driving sound with punch and clarity. The Beats Studio 3's are unmistakably Beats, with a little Apple polish and some Apple-specific features. Excellent over ear comfort fast charging and simple Apple connectivity make the Beats Studio 3 the best Beats yet.

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# GIVEAWAY

## SAMSUNG GALAXY A6+

The Samsung A6+ features near bezel-less sAMOLED 6" Infinity Display with 18.5:9 ratio.

The Galaxy A6+ also features a 16MP rear camera with a faster, wide aperture F1.7 lens to let in more light when capturing in darker environments. The 3500 mAh battery will power you throughout the day, and the 24MP front camera with front flash offers the brightest clearest selfies.

An all-metal unibody adds quality and style to the Samsung Galaxy A6+ which comes in Gold, Black, and Lavender finishes. Combined with Convenience features such as Face unlock and Bixby the Samsung Galaxy A6+ is all the phone you may ever need.

Available for dealers and networks countrywide from R6,499-00.

More information *www.samsung.com/za/smartphones/*


**GIVEAWAY**
For a chance to receive the Samsung Galaxy A6+, please send an email (one entry per person) with your name, physical address and telephone number marked "Samsung".

Please note that this giveaway is only open to our South African readers.

**Email:**
*editor@bbrief.co.za*
**Closing date:** Monday 17 September, 2018

Congratulations to last edition's entrants:
- Errol Abrahams of Mmabatho – XQISIT OE400 Headphones
- Hennie Lombard of Fourways – NutriBullet

# Trends **Dictating** Business **Travel**

Recent advancements in technology enable businesspeople to be in more than one place at a time. You would think that doing more tasks simultaneously would result in fewer working hours. The reality is that people are now 'always-on', taking on more and stretching their days and working hours even further.

The fact that we can reach colleagues or clients on the other side of the world at the touch of a button does not necessarily mean that we have stopped business travel altogether. Nothing quite seals the deal like face-to-face interaction. However, the trends in business travel certainly have changed over the past few years.

**Travelling for Bleisure**

The corporate world is abuzz with the new term Bleisure, which simply means combining business travel with leisure. It's become very common to take a work trip, whether locally or abroad, then stay on for some downtime at the beginning or the end of the business component. That little bit of added time away from the office can significantly reduce burnout by renewing an individual's resources and preventing the buildup of exhaustion.

A study by the American Sociological Association (ASA) takes this one step further, however, suggesting that too often corporate policy – even established social convention – focuses on revitalising the individual, neglecting relational needs. Holidays should, whenever possible, be used to spend time with friends and significant others, a support structure that is quickly forgotten in 'geographically dispersed, 24-hour economies'.

That's why Bleisure is so important. Flying their families in for the weekend, or for the duration of the business trip, gives otherwise busy businesspeople the opportunity to find a work/life balance for themselves.

**Tailored Travel**

It's become important for resorts and hotels to offer tailored packages, to suit to the specific requirements of corporate travel. That includes accommodating

Ramesh Jeenarain | Managing Director | World Leisure Holidays South Africa | ramesh@wlh.co.za |

for red-eye flights, late conferences, last-minute changes to itineraries as well as the general 24-hour nature of the modern working environment.

Being required to stay for an allotted period of time or having to stick to inflexible check-in and check-out times are immediate red flags. Businesspeople don't want to be penalised simply because they've had to make radical changes to their working life.

Many hotels are responding to those changes, offering early check-ins and late check-outs at the cost of a small surcharge. It's important that the hospitality industry respond quickly and without resistance because competing services like Airbnb don't have check-in times.

**Cost-Effective Travel**
Businesses are cutting back on travel costs and looking to send their employees away for the minimum amount of time possible. So, if they can fly to and from their destination on the same day, or even just stay overnight, they would prefer it.

Travellers also tend to stay close to their meeting spots and airports in order to avoid having to rack up unnecessary travelling expenses. Partner deals have also become extremely popular and sought after by business travellers in order to drive down costs.

**Seamless, Connected Business Travel**
A common trend is to look for seamless, connected travel, so businesspeople never miss a beat. WIFI connectivity everywhere is of utmost importance in order to stay in touch wherever they are. Nine times out of ten, a business traveller will expect WIFI availability, automatically turning away from any flight, hotel or venue that doesn't offer high-speed internet.

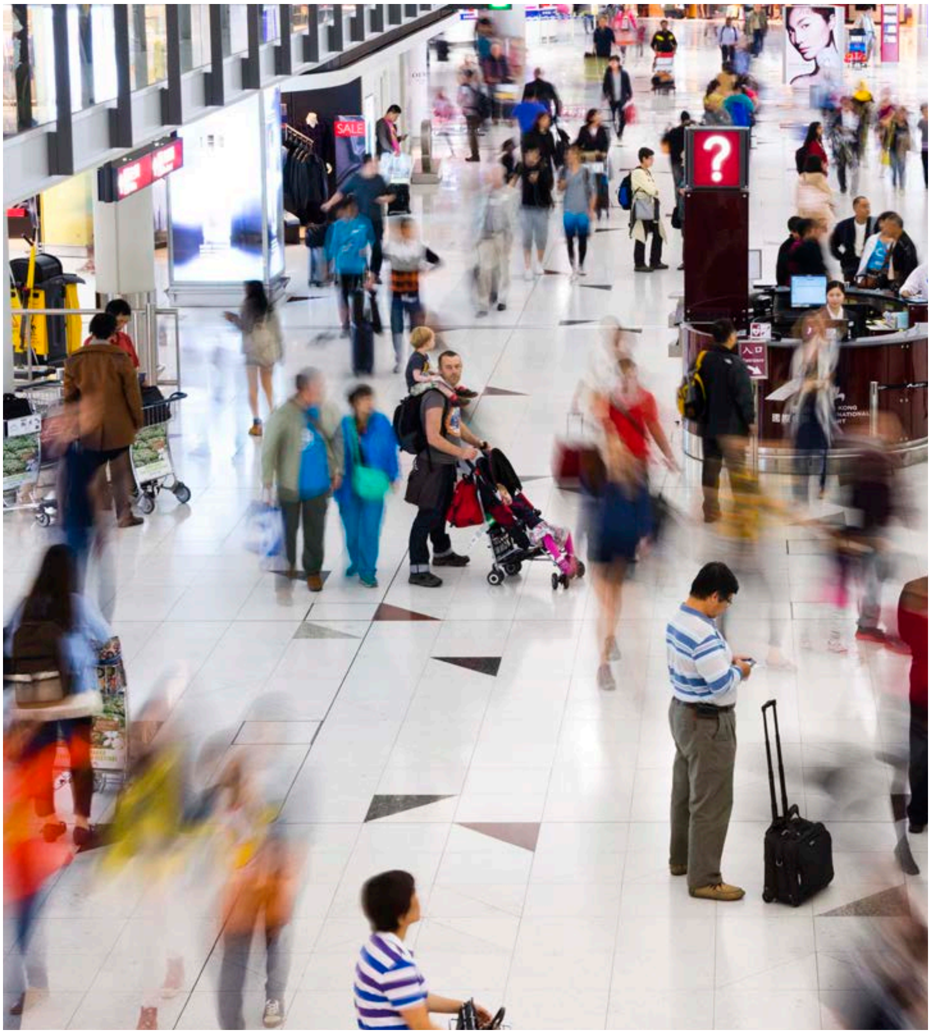
It's not even a personal choice these days. Without access to the internet, work comes to a standstill. The advent of cloud-connectivity means that all of a businessperson's resources and operational tools live online. Conferences are done over apps like Skype, not a phone call. And, collaboration between businesspeople around the world and across time zones is a more and more common occurrence.

**Travel Convenience**
The one thing that businessmen and -women value more than anything, is their time. Every single minute wasted on waiting or queuing or explaining is a money-minute lost. If there is a way to cut out a step and still get the end result, business travellers will use it. For example, if there is a way to check-in to a flight online to avoid a queue.

Checking into a hotel with business and family-specific facilities is preferred, especially since many of these travellers are combining their business with leisure travel.

Another example of convenience is planned excursions and itineraries, so guests can spend more time on their reason for travelling and less time trying to arrange and plan entertainment, meetings and meals.

Keeping abreast of these five trends will ensure that the hospitality industry can cater to the demands of the business generation that plays just as hard as it works, even if it means that the two cross-over very often. ■



# Saint Gilles in **La Reunion**

LUX* Saint Gilles, Reunion Island is an elegant beach resort, with exclusive views of the coral-sheltered lagoon at L'Hermitage.

Explore the tennis and volleyball courts in the gardens, as well as the spacious swimming pool. Once you've worked up an appetite, enjoy fresh, locally-sourced seafood at the beach resort's various restaurants and bars. Find your inner zen with yoga in the gardens. Then take in the rugged beauty, dramatic volcanic peaks and tumbling waterfalls of our UNESCO World Heritage Site, the Pitons, Cirques and Ramparts of Reunion Island.

From lunar landscapes to clear blue lagoons and lush tropical forests, Reunion Island is a beguiling travel destination. Here, a giant stirs. The Piton de la Fournaise – the island's spectacular volcano – has erupted for the fourth time this year, offering a dramatic sound and light show to lucky visitors. A beacon for researchers as one of the world's most active volcanoes, the Piton is safe to view and presents no danger to the island, thanks to its position at the heart of the Unesco-protected National Park.

Head to the south-east of the island to watch glowing rivers of lava flowing silently down the mountainside and sizzling into the sea. Sludgy, with a crust like a half-set brownie, the cooled flows take on the air of Martian terrain. For the best vistas of this remarkable landmark, visit the Grand Brûlé region, a rugged stretch of coast that teems with plant life after every eruption, or take to the skies aboard a helicopter or microlight – the best way to the see the island.

Located on the western coast of this lush volcanic island, LUX* Saint Gilles faces a shimmering expanse of aqua-blue waters, fringed by a stretch of immaculate sands. Tucked away in acres of beautiful tropical gardens, Creole villas sit in the shade of coconut palms and filao trees, just steps from the coral-sheltered lagoon at L'Hermitage. The white-sand beach may call for idle lounging by the emerald-blue pool – it's the largest one in Reunion Island.

For more information or to book | www.luxresorts.com/en/hotel-reunion/luxsaintgilles

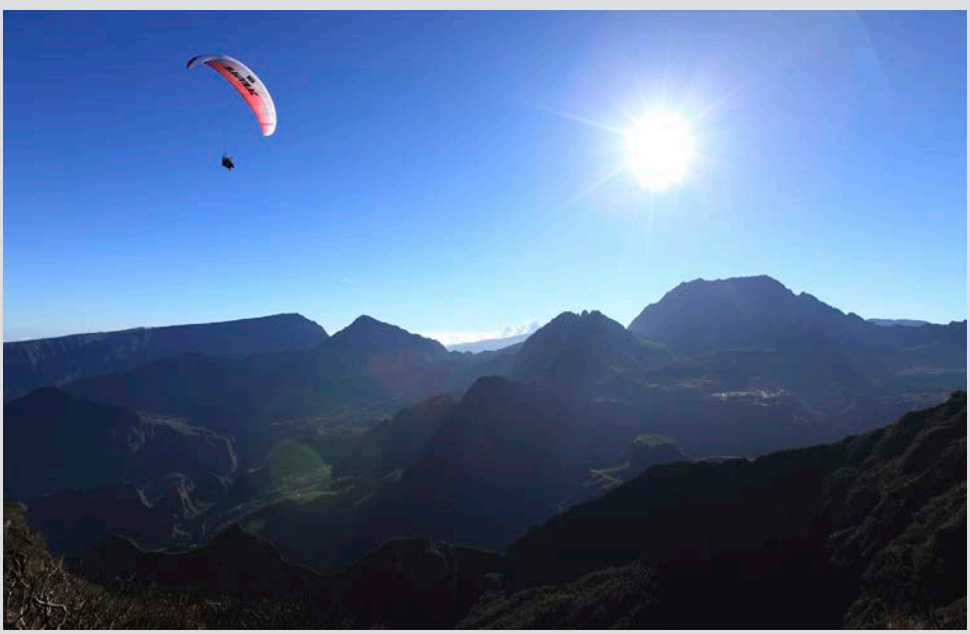
We're always looking to inspire and delight our guests. If you find a message in a bottle, pick it up - it might be a complimentary spa treatment! If you don't find a bottle, you could always relax with a flat white at Café LUX*.

Made with freshly roasted organic beans, we think it's the best resort coffee in the world. In the evening, pull up a beanbag at Screen on the Beach, or get tempted by dinner for two at the ocean's edge with a cheeky number from our house wines collection, Scrucap.

We're here to make sure you get the best out of your island life experience, so when you wander around LUX* Saint Gilles you'll find plenty of reasons to celebrate life at its lightest and brightest.

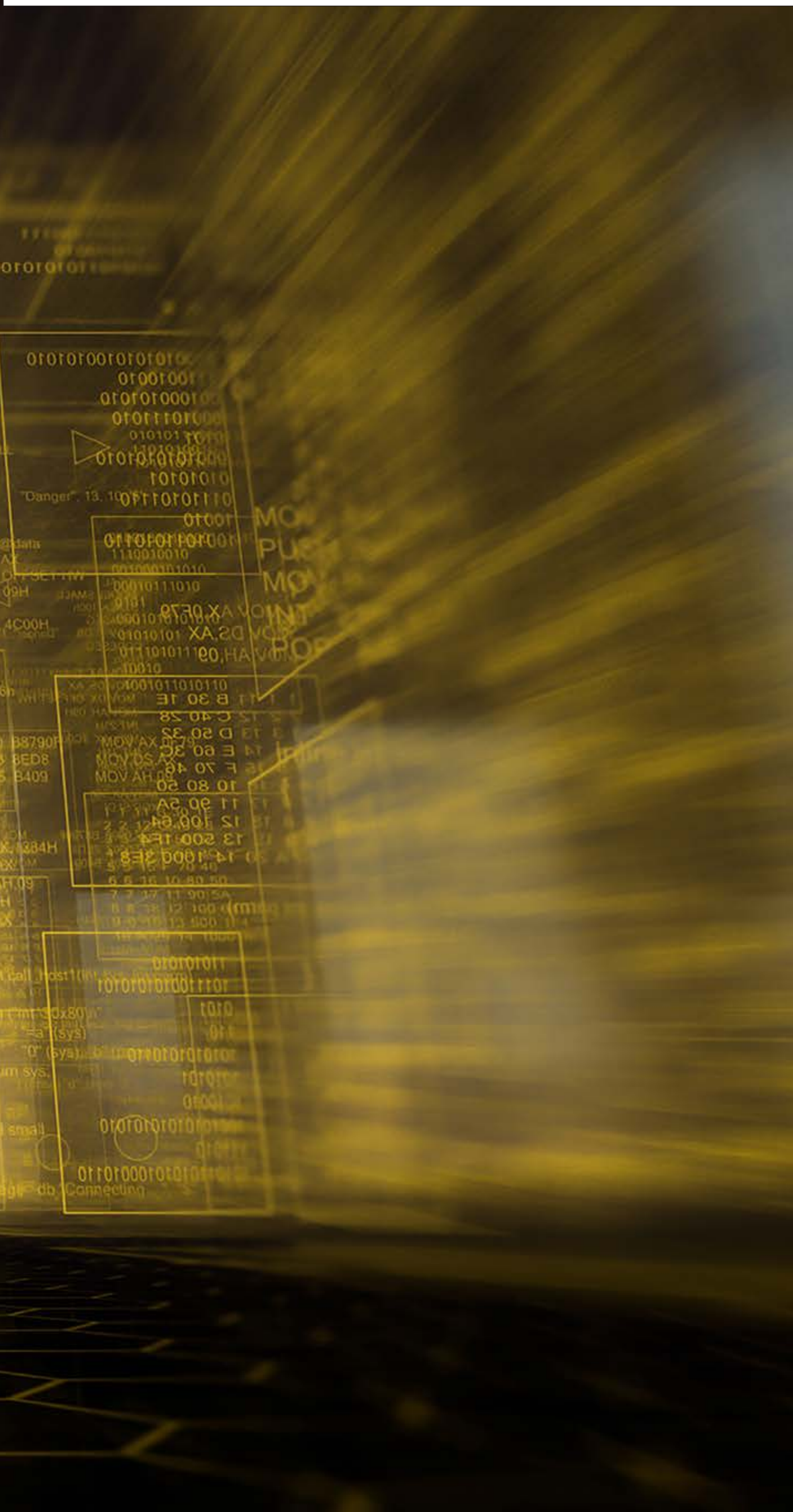
There's plenty for thrill-seekers, too. Venture further afield to experience the rugged, dramatic beauty of the island's volcanic peaks and tumbling waterfalls.

Once you've worked up an appetite, sample the day's catch at our beachfront bars and restaurants. Float away with a zen yoga session in the gardens or a private in-room spa treatment – a peaceful end to an unforgettable day on this majestic island. ■



# XBRL | the NEW REPORTING STANDARD

**By Max Marx**



**The Companies and Intellectual Property Commission (CIPC) introduced digital financial reporting via XBRL (eXtensible Business Reporting Language) on July 1, 2018.**

**From this date it became compulsory for all public, state-owned, non-profit and qualifying private companies as well as Close Corporations (CCs) – as mandated by the CIPC - to submit their annual financial statements (AFS) to CIPC in XBRL. Previously the CIPC received all AFS in PDF format and analysis was a very time-consuming task undertaken by an analyst.**

The aim of CIPC's XBRL programme is to reduce the administrative burden on businesses when reporting financial information to government for regulatory compliance. In this feature we take an in-depth look at XBRL, how qualifying businesses need to respond, what it takes to comply, and the opportunities and challenges that XBRL presents.

**XBRL to standardise business reporting in South Africa**

XBRL is an open international standard for digital business reporting, managed by a global not-for-profit consortium, XBRL International.

The introduction of XBRL, the new annual financial statement (AFS) reporting system, in South Africa is linked to a bigger project of standardising business reporting across the country. The idea is that entities will be able to report once for regulatory purposes, potentially using the CIPC as a central hub, and that other regulators will be able to use these same AFS – with potential unique extensions – for their own purposes. It is a standardised way to communicate and exchange business information between different business systems. At present, CIPC is the only regulatory body that requires submission of AFS in XBRL format.

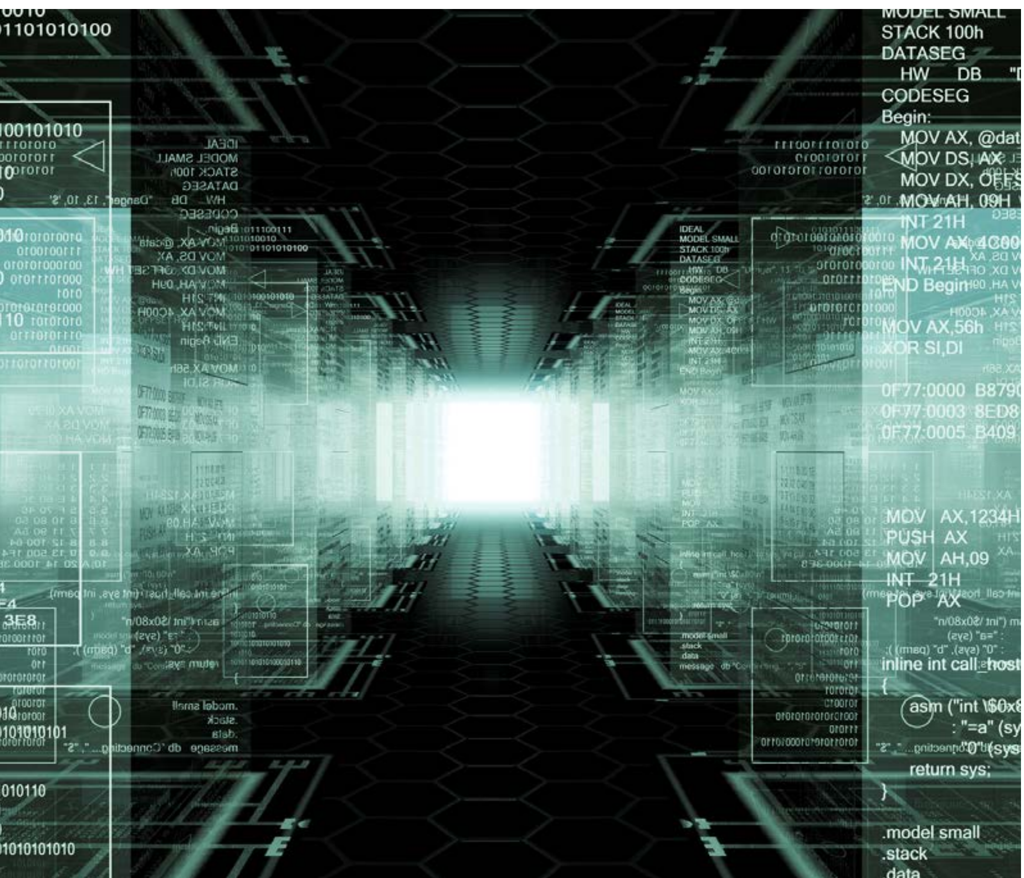
Hennie Viljoen, CIPC's XBRL Programme Manager, Corporate Disclosure Regulation and Compliance Unit, says XBRL will put an end to inconsistencies in business financial statement information reported to various government agencies and will help in reducing duplication.

Speaking at the launch of XBRL in June 2018, Minister of Trade and Industry Dr Rob Davies, said XBRL simplifies the preparation and analysis of data associated with financial reporting and can ensure that there is integrity in the financial reporting mechanism to different agencies in government. "It supports greater transparency and improves efficiency of capital markets by assisting analysts, financial and security regulators, business registrars, tax authorities and other users to access relevant facts."

Zimkita Mabindla, Senior Executive, Corporate Reporting at The South African Institute of Chartered Accountants (SAICA), says XBRL offers many advantages over traditional business reporting methods because information is submitted once and the potential for manipulation and distortion therefore is greatly reduced.

"Accountants have always produced one full set of annual financial statements and XBRL will not change that. The current system necessitates multiple submissions to different authorities, which takes preparation and administration time and can significantly add to the cost of compliance. Once XBRL is adopted by all SA regulators, it is anticipated that regulatory information could potentially be submitted once and will be usable by all relevant parties."

Once this happens, says Mabindla, XBRL can then be used for exchange of financial information, for regulatory filings, for the preparation of tax returns and business, management and accounting reports, and for the creation of information for use by other stakeholders such as investors. Viljoen adds that despite an ongoing communications campaign there are still some entities and accountants who are not ready to implement XBRL, and others who remain unaware of XBRL and the requirement to submit AFS in XBRL format.




Adiebah Moruck, Senior Manager of Quality and Risk Management at Mazars, welcomed the introduction of XBRL in South Africa. "In light of the recent fraud and corruption scandals involving some of the country's biggest corporate players, introducing measures to align South Africa's financial reporting with the rest of the world, should be embraced by all local businesses."

**What is XBRL?**

XBRL (eXtensible Business Reporting Language) is a global standard for exchanging business information, based on XML (Extensible Mark-Up Language) that is used to encode financial documents. Inline XBRL (iXBRL) is a development of XBRL that both humans and computers can read and analyse. CIPC requires the use of iXBRL format for submission of AFS.

Before XBRL became compulsory for qualifying companies on July 1, 2018, the CIPC did a pilot study with 120 JSE-listed companies, which were invited to participate in order to test the XBRL solution.

The CIPC taxonomy, published in August 2016, covers reporting requirements for domestic entities as prescribed by Companies Act, No. 71 of 2008 and the Close Corporations Act 69 of 1984. Apart from the SA-specific requirements, the taxonomy also includes the IFRS (International Financial Reporting Standards) taxonomy - IFRS – FULL and IFRS – SME – as developed by the International Accounting Standards Board.

A taxonomy is a dictionary of terms used in financial statements and their corresponding XBRL tags (electronically readable codes for each item a financial statement). There are 31 mandatory fields built into the CIPC taxonomy but according to Chris Williams, Executive, Information Technology at Xpert Decision Systems (XDS) - part of EOH Group, an average financial report has about 3,000-line items.

Each line-item in a financial statement – for example, ‘revenue from sale of goods’ or ‘analysis of income and expense’ - is defined and tagged and can then be used by an XBRL-compatible programme. The tags enable enterprise systems to recognise the data, and automatically store, select, analyse and present information.

Sunet Leimecke, Solutions Manager at Synergy, says companies are required to ‘map’ their annual financials (and some non-financial information) to the CIPC taxonomy. “The mapping of this data is based on different entry points defined by the CIPC. Based on how companies produce their financials, a specific combination of entry points will apply, which will guide entities as to which version of the taxonomy – IFRS – FULL or IFRS – SME - to use.”

**Issues solved by XBRL**

With financial data previously transmitted in print or electronic format such as PDF, recipients who wanted to use computer-assisted analysis or electronic storage, had to manually transfer the data from the document into their systems – a laborious, time consuming process that was prone to error, says Celeste Herbert, Sales Manager, CaseWare Africa, Adapt IT.

“XBRL-enabled software reads XBRL-tagged data and imports information directly. It enables data to pass between disparate computer systems with human intervention needed only in the case of exceptions. The resulting efficiency reduces the cost of communicating and maintaining financial data while improving its usability, integrity and compliance to a multitude of stakeholders,” says Herbert.

This automation and standardisation, adds Herbert, results in a more transparent view of AFS, which in turn has an impact on the accounting process. “Accounting standards can more easily be scrutinised - internally by FDs and CEOs, and externally by investors, banks and regulators.”

CIPC may in the future maintain a common taxonomy on behalf of other regulators, SARS, the JSE and investors, will all of whom will have access to the same data as required by the CIPC.

**Entities required to submit AFS using iXBRL**

Any entity that is required by the Companies Act to submit audited financials is mandated to use XBRL. About 100,000 of the 1.8 million active entities registered with CIPC are therefore required to submit their AFS to CIPC in iXBRL format.

In terms of Section 33 of the Companies Act 71 of 2008, and regulations 28, 29 and 30 of the Companies Regulations of 2011, this includes all public companies, qualifying private companies and closed corporations - which previously submitted AFS using PDF, state-owned companies, and non-profit entities.

Cooperatives are not required to submit AFS via XBRL.

Private and personal liability companies, who don't have their financials audited, are only required to complete the Financial Accountability Supplement (FAS) and submit it with their annual return.

Usually entities with Public Interest Scores of less than 100 don't have to submit AFS (unless their Memorandum of incorporation states they may). Those who submit FASs don't have to do so via XBRL but only via web form.

An entity that controls other entities is required to submit consolidated AFS. Domestic subsidiaries must submit their own individual AFS, while foreign subsidiaries not registered with the CIPC don't have to. Parent entities must submit their own entity details plus consolidated details for all subsidiaries (domestic and foreign) in the same set of AFS.

Entities are welcome to upload anything in PDF as supplementary documentation such as the audited and sign-off hardcopy statements, but supplementary documents are optional. The CIPC will still require sign-off of AFS as previously, but signed-off PDFs don't need to be uploaded anymore. The Act requires signed-off AFS to be kept by qualifying entities for seven years. The CIPC can request access to these at any time. Only the AFS must be submitted via XBRL. CIPC will only analyse the XBRL files, not the PDFs.

Adiebah Moruck, Senior Manager of Quality and Risk Management at Mazars, points out that it is the responsibility of company management to ensure the financial statements generated in XBRL format follow the prescribed taxonomy. "If companies are relying on their auditors or accountants to assist with the conversion, they have to understand that they have a responsibility to ensure the information in the XBRL financial statements and the mapping and structures are complete and accurate. Accountants and auditors should ensure the XBRL financial statements are reviewed and approved by management before submission to CIPC (if the audit firm is also responsible for submitting the annual return).

"This may require affected businesses to obtain a custom software package that allows tagging of the required data elements into the XBRL format. Alternatively, companies will need to start having a conversation with their service providers to determine whether they can provide XBRL support. Partnering with an audit firm that already has the capability to convert company information into the required format, means that the business will not need to spend additional capital or time on converting the information. At Mazars for example, we already capture our clients' financial information with software that allows us to export it to the iXBRL format."

**Criteria for compliance**
- Entities whose Memorandum of Incorporation prescribes filing of AFS are required to submit AFS via XBRL
- Private and personal liability companies that hold assets exceeding R5 million in a fiduciary capacity for persons who are not related to the company need to submit AFS via XBRL.
- Private or personal liability companies that compile AFS internally and that have a Public Interest Score of 100 or more must submit AFS.
- Private or personal liability companies that have AFS compiled by an independent party (such as an external accountant) and that have a Public Interest Score of 350 or more must submit AFS via XBRL.

**Submission requirements**
The CIPC differentiates tagging requirements by size and type of entity. There are different entry points in the taxonomy with different sets of data elements to be tagged.

Minimum tagging applies for all entities, but the specific data elements to be tagged are determined by whether an entity uses IFRS-FULL or IFRS-SME entry points into the taxonomy.

Hennie Viljoen, CIPC's XBRL Programme Manager, says IFRS-FULL applies mostly to large companies and IFRS-SME to Small and Medium Enterprises. The Companies Act stipulates when an entity can report as an SME and when not. An SME follows a different route or entry point than companies reporting on IFRS – FULL and requires less data to be reported.

**Entities required to tag according to IFRS - FULL**
- Listed public companies
- Non-profit companies incorporated directly or indirectly by the state
- State-owned enterprises

**Entities who can submit either IFRS – FULL or IFRS - SMEs**
- Public companies not listed on the Johannesburg Stock Exchange Companies (profit and non-profit) whose public interest score is at least 350.
- Entities with scores of at least 100 but less than 350, whose financial statements are either internally or independently compiled, as well as companies whose score is less than 100 and whose financial statements are independently compiled.

**Data elements that need to be submitted via XBRL**
The overall approach for tagging of AFS is based on a minimum tagging approach. Minimum tagging requires individual tagging of all applicable facts of the primary financial statements.

**This includes:**
- Statement of financial position, current/non-current; and by order of liquidity.
- Statement of comprehensive income, profit or loss, by function of expense; and by nature of expense.
- Statement of comprehensive income, OCI components presented before tax; and net after tax.
- Statement of cash flows, direct method; and indirect method.
- Statement of changes in equity; and in net assets available for benefits.
- Notes – Sub-classifications of assets, liabilities and equities; and analysis of income and expense.

At the highest level, the whole statutory annual financial statement needs to be tagged with iXBRL tags.

**When are entities first AFS due via XBRL?**
As with their annual returns, entities must submit their AFS 30 business days after the annual anniversary of their Date of Incorporation. Close Corporations have 60 business days to submit their AFS from the first day of the month of the anniversary of their date of incorporation. Entities are required to submit their latest final approved audited or independently reviewed AFS on the same day as their annual returns.

Other regulators may require these more frequently, but none of them uses XBRL as yet.

**How to ensure compliance**
To ensure compliance, says Moruck, Senior Manager of Quality and Risk companies need to:
- Determine the date for the first submission of the latest available AFS after July 1, 2018.
- Consider the budget for their chosen approach.
- Evaluate the XBRL capability of current in-house software systems.
- Engage with software service providers to discuss options and costs.
- Develop or obtain an XBRL solution
- Decide which approach to follow (full integration or tagging only).

**Consequences of non-compliance**
According to the Companies Act 71 of 2008, all qualifying entities need to submit AFS or returns through a system defined by CIPC.

Any contraventions of the law mean entities could be subject to deregistration or penalties for failing to submit Annual Returns. Viljoen says the penalties are the same as for previous non-compliance of submission of AFS as per the Companies Act. "These may include a compliance notice, fines, declaration of directors as delinquent and even deregistration of entities. The CIPC will, however, journey with entities to assist with compliance."

**Data protection and access**
Viljoen says the first level of protection is via the credentials of registered users with passwords and access limited to "own data" only. "By default, entities can only see the data they have submitted via CIPC's upload portal and not the data uploaded by others. However, the Companies Act allows anybody to request access to the financials of any entity and CIPC is allowed to make it available through official requests to access."

CIPC's ICT systems and data are protected by McAfee's full cyber security suite.

**How to work with XBRL**
All entities will require software that will be able to tag the required data elements and export the AFS in iXBRL format.

The CIPC has an online portal through which entities can upload their iXBRL-formatted AFS and data.
Riaan Wienekus, Executive Director and Africa Managed Services Leader at EY, says it's important to assess the capabilities and functionality in place at an organisation and/or group level before deciding to implement a compliance solution.

"Implementing the new capability will require a number of reconfigurations and enhancements as the XBRL requirements will change significantly over the next couple of years."

He says the process starts with the preparation of the schedule of all entities registered at the CIPC and determining the Public Interest Score and audit requirements based on the Memorandum of Incorporation. "The schedule should also contain the Dates of Incorporation of each entity to determine the due dates of the annual return and the availability of audited financial statements for conversion and submission. A company such as EY can then work with their clients to determine the most appropriate and cost-effective solution based on internal capabilities and timeframe for first submission."

He adds that the current process of preparing AFS remains the same, but the process of transforming the AFS into XBRL can happen in three ways. "Companies can select to change their financials into XBRL at the end of the process using bolt-on XBRL tools; obtain software or outsourced services from experienced software service providers recommended by CIPC, or choose to integrate XBRL into their backend processes."

Sunet Leimecke, Solutions Manager at Synergy, says bolt-on XBRL tools add an additional step at the end of the external reporting process to tag and create XBRL output. "This extra step means reporting timelines are extended, and there's additional work and cost because the process has to be repeated at the end of each reporting cycle. With bolt-on and outsourced tagging, companies increase their risk of errors."

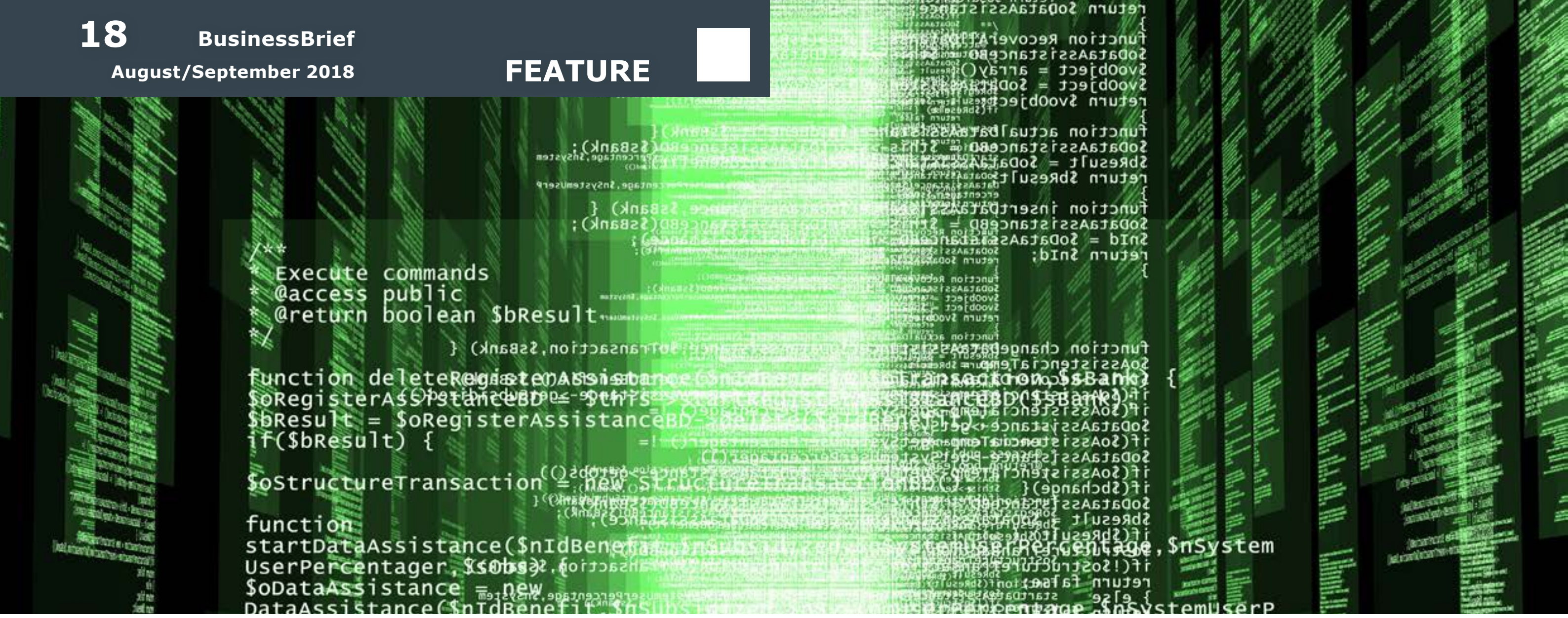
Leimecke says the integrated XBRL solution, in which tagging is embedded within the external reporting process, is more efficient, less prone to error, and enables tags to be applied and validated at any time.

An XBRL tag needs to be added to all the fields stated in CIPC's taxonomy, says Celeste Herbert, Sales Manager, CaseWare Africa. "Using CaseWare working papers we have auto-mapped the tagging to the standard fields as well as providing tools to easily tag any customised fields added by clients to AFS. Done once, tagging can be saved for future years."

Herbert adds that there are various XBRL tools in the market. "The biggest risk to consider is whether the CIPC taxonomy has been applied correctly and will pass CIPC validation. CaseWare Africa is working closely with CIPC to ensure its software stays up to date with any adjustments made by CIPC."

She says the cost of software and the time required to produce a file is another risk to watch out for. "Some cheaper solutions in the market offer manual tagging, which costs more in time to produce a set of XBRL AFS."

She adds that the ease with which companies can implement XBRL depends on the tools used to




implement it, the file size and level of customisation of the AFS. "The effort involved in converting a file can be as little as 15 minutes. Clients who tested with us during the pilot period submitted in under an hour."

CaseWare tested with more than 60 clients during the pilot testing phase, successfully submitting files more than 300 times to CIPC. As of July 13, 2018, a third of all XBRL submissions to CIPC were produced by CaseWare.

Leimecke adds that while the role of a specialist partner is critical, a partnership-based approach is recommended. "Clients need to understand the importance of their involvement in their financial numbers and not rely on external companies to interpret their numbers and mapping to the CIPC taxonomy as external resources will not be familiar with a company's reporting processes. Financial departments must be confident in the numbers submitted to the CIPC, as once submitted, they remain in the system."

Carien Claassens, PwC Senior Manager, says each client will have their own unique mapping as different companies will have differing AFS.

Adiebah Moruck, Senior Manager of Quality and Risk Management at Mazars, points out that the firm that conducts the audit of a company's financial statements, will be allowed to complete the tagging of company information into XBRL format, as long as the same firm is not responsible for the compilation and drafting of the company's financial statements.

Jason Petersen, Software Support Consultant at Mazars, says once the AFS are uploaded to the CIPC website in iXBRL format, the documents then go through a validation process during submission. "The validation process checks the XBRL file and ensures that all the mandatory tagged information is populated. If there are any mandatory fields left empty, an error report will be returned highlighting the required missing information. Thereafter the conversion of the financial statements to XBRL will need to be done again with the reviewer ensuring all the required data has been tagged."

XBRL is expected to go through a process of evolution over a number of years as the CIPC keeps up to date with latest IFRS releases by the International Accounting Standards Board and updates its taxonomy annually. Changes may also be required as CIPC starts sharing data with other regulators so as to accommodate their requirements.

**Can companies go it alone?**

Companies can go it alone, says Leimecke. "If companies purchase and implement Synergy's software solution, Certent CDM, we can guide them through the financial reporting process and tagging with minimum involvement from Synergy.

Wienekus says the process of producing XBRL financial statements requires extensive knowledge of the IFRS taxonomy and tagging rules as defined by the CIPC. "Organisations, therefore, require the support of an experienced company to support them with this process to ensure AFS are converted accurately and accepted by the CIPC."

Companies need to make sure they're using an audit and accounting software package that can convert financial statements to XBRL format, says Petersen.

"They would need to employ suitably qualified personnel to tag the signed off AFS, review them, and submit the final XBRL file to CIPC. They also need to be aware that they will be liable for any discrepancies or queried financial statements after submission, regardless of whether the financial statements were drafted by an external party."

Viljoen says companies don't need to have any XBRL technical skills if they acquire XBRL-capable software or outsource XBRL preparation to companies who can do it for them.

"If they have acquired software, they can prepare their own AFS using the software. This can be a very simple process of "tagging" data to our XBRL taxonomy with no special skills required. However, if they want to develop their own XBRL-capable software that can tag and convert from other formats, they will need significant in-house XBRL skills. Our Software Service Providers panel has assessed several software providers who have been found to be XBRL-ready. Entities, therefore, don't need in-house skills and should rather partner with a vendor already providing XBRL software and services."

**Choosing the right XBRL partner**

Choosing the right XBRL software partner is very important as the iXBRL filing is ongoing, says Chris Williams, Executive: Information Technology at Xpert Decision Systems (XDS).

There are several questions to ask when choosing an XBRL partner:

- Does the software provider have experience in XBRL?
- What is the quality record of the software provider?
- Will the software provider be able to adopt the changes to CIPC rules and, taxonomy changes? Do they have the required skill-set to apply/ implement taxonomy changes?
- What support structure does the business have in place to provide ongoing quality support?

**Choosing the right software**

Williams adds that it's important for a company to choose the right software for its needs.

**Things to consider:**

- Is the software tried and tested?
- How user-friendly is it?
- The software should ideally be Cloud based allowing for access from any Internet connected device.
- What is the quality of the iXBRL output document that is created?
- Is the software scalable or are there user/ transaction capacity limitations?
- Does the software cater for the regulatory requirements of various international jurisdictions?
- Has any benchmarking been done against the software?
- Does the software package cater for Smart Editing?
- Features like online editing, easy version creation and compare, and integrated review and comment make the finalisation process with approvals and signoffs easier.
- Can the software create outputs in multiple formats (including iXBRL, Word & PDF) from a single source document?
- Does the software perform audit checks?
- Does it allow external auditors access to company reports, to comment and suggest changes, all in one seamless platform?
- Can the software perform Roll Forward Filing?
- Can the software prepare the documentation only once and update it easily to get your template ready for the next filing?
- Can the software perform Spreadsheet Linking?

**XBRL-ready software providers**

These are presently 15 software providers in South Africa that have been assessed by the CIPC and found to be XBRL-ready. More service providers are about to join the Software Service Providers panel.

- Ince
- Workiva
- Synergy
- AMOSCA
- CaseWare Africa/Adapt IT
- IRIS Business Services – Mumbai/ XDS, South Africa
- Data Prime Solutions
- KPMG Services/Certent
- EOH and Computershare
- Data Tracks Services
- Ez-XBRL Solutions
- Cortell Corporate Performance Management
- Toppan Vintage
- Thomson Reuters
- IT Mates

**Costs involved in creating iXBRL**

Moruck adds that there are additional costs involved with the XBRL submission, depending on whether a client's software is XBRL compatible or not. "If not compatible, they would need to determine whether an alternative software should be purchased or to choose a service provider to do it for them which comes at a cost."

**Challenges in XBRL implementation**

Many companies are concerned about the timeframe, cost and compliance requirements to implement XBRL solutions, says Riaan Wienekus, Executive Director and Africa Managed Services Leader at EY. "But with EY's cost-effective approach, solutions can be rolled out quickly with limited impact on company representatives responsible for compliance. A key challenge with the implementation of XBRL is the need for finance staff to be more involved in the preparation and submission process and the need for specialised support or software."

Jason Petersen, Software Support Consultant at Mazars, says pressure points would be clients finding compatible software or a service provider who will be able to assist with the conversion to XBRL. "The current taxonomy released by CIPC will continuously be updated and software service providers will need to ensure their software is kept up to date to ensure compliance with the CIPC requirements."

Hannelise van Wyk, Enterprise Performance Management Engagement Manager at Decision Inc, says many companies are still confused about what XBRL entails. "There is a need to drive a strong data culture in South Africa for organisations to make sense of what they have at their disposal. XBRL can be an enabler to achieve this and make data more user-friendly."

She adds that companies need to carefully examine the software needed to implement XBRL effectively and look at how the software fits into their digital roadmap. "Smaller businesses can more readily embrace cloud-based options. For large corporates, it may not be as easy a process to migrate to XBRL as they use multiple applications and business processes to prepare financial statements across a big group."

She points out that XBRL is not something that can be implemented as a once-off and be forgotten about. "Businesses need to create a sustainable process that is mindful of existing processes and systems. They have to consider whether it makes more sense to outsource XBRL or to develop the skills in-house needed to create and maintain it."

**XBRL impact on accountants and auditors**

SAICA does not see a significant impact on accountants' and auditors' businesses in the near future, although smaller enterprises have expressed concern about the additional costs the CIPC process will introduce, says Zimkita Mabindla, Senior Executive: Corporate Reporting at SAICA.

"In the long term, accountants' and auditors' businesses will have to ensure that their businesses and the skills of the people they employ move towards a digitised economy. This includes the utilisation of emerging technologies that will introduce efficiencies in financial reporting and audit processes and ultimately enhance the quality of the deliverables of these processes."

Carien Claassens, PwC Senior Manager, says most clients prepare their own set of AFS and auditors only sign these off. "The client might require the audit team to perform additional procedures to ensure that whatever has been mapped and transformed into the XBRL format, agrees with the original signed-off AFS.

**XBRL filing makes it more difficult to fudge financial statements**

Chris Williams, Executive Information Technology at XDS, says any inconsistencies from the creative fudging of financial statements are easily identified when filing in XBRL. "Being machine readable and standardised, calculation and computational errors are immediately identified. Business rules and ratios can be embedded in the taxonomy, which will be evaluated when iXBRL files are processed. These can be compared with acceptable norms and standards and highlight discrepancies and anomalies."

When it comes to calculation inconsistencies, says Williams, most taxonomies contain a calculation link base where calculation relationships are defined. For example, 'Assets = Fixed Assets + Current Assets'. Where the values captured in the report don't add up, the validation tool would show the error, which then needs to be solved for creating a valid file.

iXBRL can also pick up formula errors and inconsistent duplicates. Taxonomies like that of CIPC contain a formula link base which applies to more complex computation and conditional situations. For example, 'The Public Interest Score is not calculated properly'."

The same applies to inconsistent duplicates. The same value may be disclosed in the annual report more than once. "Sometimes we come across scenarios where the value given in one section of the report does not match with that given in another section. At times the difference will be so minor that it would be easily missed by the eye but XBRL will easily catch such inconsistencies. For example, when the value of share capital disclosed in the 'Statement of financial position' is R785-million ZAR but in the 'Notes to accounts" it is disclosed as R786-million ZAR.

"It's clear from the above that more complex calculations, ratios and formulae can be implemented to prevent deliberate manipulation of financials," says Williams.

**Benefits of XBRL**

- XBRL implementation gives clients future analytical power and assists companies and regulatory bodies to govern better.
- It improves compliance.
- It reduces the administrative burden for both regulators and businesses.
- It enables the CIPC to validate AFS data against the IFRS taxonomy.
- Once all regulators use XBRL and a common taxonomy, entities will be able to submit their data once.
- XBRL can be used for integration in back-end processes to automate the preparation of financial statements, which improves productivity and the accuracy of data submitted.
- Costs are reduced by automating tasks, which offers faster, more reliable and accurate handling of data, reduces errors, improves analysis and provides a better quality of information and therefore decision-making.
- It enables quick searches for information and the quick assembling of data from different company divisions with different accounting systems.
- It demands more responsible governance in organisations, reduces risk, creates transparency and allows for comparability.
- Data silos between regulators will be broken down leading to more transparency.
- Standardisation of AFS reduces the risk of fraud.
- Being XML-based, XBRL inherits various methods for searching, querying and analysing data enabling more effective analysis of financials.
- Being fully internationalised, documents created in one country can be viewed in another language by recipients at a different geographic location. XBRL provides online dictionaries of its tags and common terminology in all major languages that can be invoked automatically when a document is opened. This enables a common platform for reviewing standardised information.
- Data is captured once and then used to populate the various reports that are required.
- Smaller companies benefit due to quicker and cheaper processing of data by financial institutions when processing loans.
- XBRL promotes the democratisation of financial information, with the analysis and extraction of value from financial information no longer exclusively the domain of the financial elite.
- International investors can easily access South African financial information to make investment decisions.
- Inline and real-time financial analysis of data using standard financial ratios will highlight potential financial risk and ultimately protect investors.
- It reduces the ability to creatively fudge one side of a balance sheet in an equal and opposite way to the other side without this going undetected. These types of inconsistencies are easily identified when you file in XBRL.
- The analysis of individual financials and consolidated data will enable the CIPC to detect industry and economic trends.
- It provides a single version of the truth. ■

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COVER STORY

# ETHICS
# HAVE WE LOST **HOPE?**

**Being able to speak the truth, without the fear of being intimidated or being politically incorrect is a liberty that sets a person free, both physically and psychologically. However, this attribute is increasingly more difficult to find in the leadership and structures of the 'new' democratic South Africa.**

This is ironic, in fact also bizarre and especially so in a country equipped with a Constitution that is considered to be one of the best in the world. But are the people of South Africa truly as liberated as they think they are, or are we slowly but surely sinking into the abyss of lower moral standards with most people too scared to speak out, and act decisively against the cancerous rot of corruption and unethical leadership?

**Media headlines; what are they really telling us?**
There are daily occurrences of news headlines conveying stories of leaders being caught out on the wrong side of good governance practices.

Whether it's about previously convicted fraudsters such as Tony Yengeni's recent appointment as chairman of the ANC's Working Group on Crime and Corruption, or President Cyril Ramaphosa not acting decisively against his 'ANC Top Six' who appointed Yengeni to this position; nothing is being said or done about the many questionable poor governance actions or unethical decisions being taken.

This is deeply troubling against the back-drop of what all South Africans were hoping for and which was encapsulated in Ramaphosa's 'new dawn' mantra, especially when reading the following headline; 'Ramaphoria's greatest challenge: sentencing the corrupt', which essentially is not happening.

> ***"All decision-makers, whether in the public or private sector, are collectively responsible for the wellbeing of all South Africans, and to this end we should demonstrate an intolerance against misbehaviour."***
> *Trevor Manuel, Chairman of Old Mutual Group Holdings & former South African Minister of Finance (2018)*

What's happened to our ethical values and moral compass that causes the truth of our feelings to be so deeply suppressed, knowing full well that our societal standards are being lowered each day?

Whilst a few civic organisations, such as OUTA (The Organisation Undoing Tax Abuse) and Corruption Watch, are examples of some of the visible non-profit organisations trying to make a difference to beat this horrific scourge, we have to admit that their hard-fought battles for ethical behavior are hardly making a difference to the lives of many millions of people.

Without greater civic activism and financial support to equip these afore-mentioned institutions, including a renewed energy from those citizens demanding ethical leadership and ethical outcomes in the top structures of our government, corporate businesses, religious institutions and sporting bodies, these noble efforts and indeed these organisations, will simply fade away.

It takes great courage and boldness to call out poor leaders and their poor governance practices, and when leaders of any kind operate with double-standards or hidden agendas, this too must be questioned, and stopped; especially in a society that wants to uphold the virtues found in our Constitution.

On the whole, we do not see that many business or religious leaders, nor the judiciary, actually demonstrating against a system which has become so deeply flawed and infested by corruption. Our leaders, who are meant to protect and serve the nation, are most notably missing and their silence is deafening.

Of course, it stands to reason that when good people do not make their voices heard, ethically defunct leaders seem to become more brazen, and a lot more arrogant, believing that they are untouchable and that they can simply continue their wilful poor governance practices.

As a point in case, newly appointed Global Managing Partner of Mckinsey - Kevin Sneader - arrogantly believed a simple 'sorry', as a part of the global consulting firm's apology to South Africans would amend the massive damage the consulting firm had caused by their own greed within Eskom; this being just one casualty in the 'state capture' saga.

> ***"A strong, positive culture is an important asset of any organisation that should be supported and protected. It is not merely a 'soft' issue of interest to investors and the media; rather, it can be critical to the company's growth and performance."***
> *Corporate Culture Risk and the Board - Deloitte (2018)*

Sneader believed that Mckinsey's untenable role and massive damages caused, could be rectified by defending their position. He thought that by saying 'sorry' and paying a lump sum of over-charged consulting fees, would make the firm's problems disappear. However, stakeholders

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appear not to have accepted Sneader's apology. Clearly, as there were no proper consequences, or any Mckinsey employees being publicly held to account, the attempted whitewash failed.

Indeed, the media headlines said it all in the caption: 'Mckinsey's global chief's Joburg gamble backfires. Spectacularly'.

**Have South Africans lowered their expectations?**
Is the public shocked and outraged by these headlines, or has this state of poor governance now become the new 'normal' in South Africa? As concerned citizens and as the stakeholders in the future of our country, we should be demanding explanations, rectifications and transparency from our leadership - be they in government or in business.

As the governance of our leadership continues to decline the facts clearly show how billions of Rands have been squandered for the benefit of a few corrupt individuals, whose names appear regularly in the news. Let's face it, there's a herd of elephants in the room which few people are willing to address, including how ordinary people are being negatively impacted.

In truth, one must question whether enough concerned citizens, or for that matter civic action groups, are speaking with a united voice in order to put an immediate stop to this endless and brazen looting?

**South African government being held to account**
Despite the many examples where government officials have been caught on the wrong side of ethical behavior, there have been very few occasions


Terrance M. Booysen


David Loxton

where the individual has been hauled over the coals.

Perhaps even worse, many politicians and their parties speak harshly about the dire circumstances of the country, and organisations being controlled by the government which are embroiled by corruptive practices and leadership, but in reality very little action - or remedial action - is seen.

It's high time that South African citizens take a moral stand against poor, ineffectual, unethical and paralysed leaders who continue dragging the country downwards. These scoundrels have successfully caused South Africa's downgrades, and have also been responsible for our massive decline in most international indexed reports in areas such as crime, corruption, education, health, ease of doing business, business confidence and foreign investment to name only a few areas.

South Africans have a right to be outraged. They have a right to be anxious about their future prospects as inept people continue to be placed in critical leadership positions. It is not acceptable for any South African leader to offer anything less than what the founding father of our democracy - Tata Nelson Mandela - expected and for which he sacrificed so much.

The current demise of South Africa cannot be blamed on anything else other than poor leadership; moreover, inactive citizens who have to date, not held leaders accountable.

**Good ethics is tangible**
Good ethics and moral leadership are found in every example of an effective and sustainable society.

By association, all organisations found in such a setting - be it companies, sports & cultural institutions, churches and the like - are expected to set the moral culture and governance framework within which they operate.

***"Some of the toughest ethical problems arise not from choosing between right and wrong, but in deciding between two alternatives, both of which may be right in varying degrees. The need for a moral compass, enabling people to establish with some certainty what is right, what is more right and what is wrong, becomes more pressing."***
*Corporate Governance: An Essential Guide for South African Companies - Ramani Naidoo (3rd Ed, 2016)*

It is essential that the tone is set from the top, with the organisation's governing body (the board) leading by example; acting with integrity, competence, responsibility, accountability, fairness and transparency. These are the founding principles required by the King IV Code on Corporate Governance for South Africa, 2016™ (King IV™) and sadly, many of South Africa's top leaders are simply paying lip service to these good governance principles.

Where the boards of organisations are aligned to the ethical practices found in King IV™, these practices are inculcated in the organisation as a whole, with the necessary documentation, codes, policies and procedures also being firmly entrenched.

Moreover, these organisations have ensured their leadership and employees are correctly trained to ensure that all its management are complying with the values and culture the organisation expects from them, and that their actions are congruent with good governance.

There are many leaders in our society, and in businesses, who just 'talk' of their ethical values, but in practice this amounts to nothing more than lofty goals. However, any intellectually honest person intending to rectify their organisation's ethical shortfall will ensure the necessary mechanisms are in place to address any unethical behaviour.

This said, an ethically orientated organisation will ensure that those people making allegations of unethical behaviour will be adequately protected. This could be achieved through robust ethics hotlines and credible whistle-blowing procedures. The organisation should also ensure that any allegations are swiftly addressed, with appropriate actions being taken - and being seen to have been taken - against the perpetrators.

Sadly, it may be reasonably safe to say that South Africa has not achieved any of these ethical objectives, and the country and its leadership is currently severely lacking in several aspects of its governance.

It's evident that an ineffective ethical tone is being set by the current leadership (i.e. the SA government) for ethical standards and conduct to permeate within its own ranks, including its stakeholders and this tone is being allowed to pervade its ranks, including the country's entire supply chain.

**Stakeholders will determine future success**

It is accepted that astute and insightful organisational stakeholders, including the country's citizens, are increasingly demanding ethical leadership from the rank and file, including ethical operational and governance practices from all those who lead organisations, and indeed the government itself. It is also accepted that the ethical (or unethical) conduct of organisations will shape their current and future performance, setting a precedent for the manner in which they interact and engage with their stakeholders.

> ***"Everyone must take pride in themselves and their responsibilities. Define who you are and take on the responsibility that goes along with it. The more wrongdoers find there is no place to hide, the better society becomes for those who want to do good. Let us do what society demands of us and live up to the promise of a new beginning."***
>
> *Trevor Manual - Chairman of Old Mutual Group Holdings & Former South African Minister of Finance (April 2018)*

As compared to organisations expected to follow the governance and ethical practices of King IV™, the government cannot expect to be treated any differently.

Citizens, businesses, local and foreign investors - as well as other interested 'stakeholders' in the country's future growth and prosperity - should be demanding that the appropriate structures are in place to facilitate and encourage transparency and ethical conduct from the government, state-owned enterprises and those private organisations which have fed off years of corruption and poor governance.

Stakeholders should be demanding ethical leadership and true value creation for the country, calling out those who jeopardise its short, medium and long-term success and legitimacy.

Given the fact that the stakeholders of South Africa have not rallied in their millions against decades of poor leadership and poor governance in South Africa, one needs to ask, 'have we lost hope'? And when the nation loses hope, and despair sets in, then the task of revival becomes so much longer and more difficult.

The antidote for the corruption and unethical leadership can only be found within leaders who inspire hope and consistently practice ethical behavior - and nothing less.

This ethical turnaround, should it occur, will translate into South Africa's outputs as a value-based, successful and legitimate country, which will attract both capital and human investment, and in turn, will have a positive impact on the local and global economy and society. ■

# Entrepreneurship is **killing entrepreneurship!**

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Entrepreneurship makes three promises. Entrepreneurship promises to uplift the economy through job creation and increased economic participation. Secondly, it promises to better the communities these businesses serve through the services/products and employment created. Lastly, entrepreneurship promises individuals a vehicle to create a better life.

Looking at the poverty in South Africa you would think masses of people are running to entrepreneurship.

But we don't have a fast-growing economy. People protest for jobs. Not enough people are starting businesses in South Africa. I believe it is because our current approach to entrepreneurship is killing entrepreneurship.

Entrepreneurship is not working. It is a con because it rarely if ever delivers on the promises made to entrepreneurs. When we fail entrepreneurs, then we will never be able to realise the promises of job creation and growing economies. We need to move away from our obsession with business success and look at entrepreneurial success with equal importance. Build successful entrepreneurs, then successful businesses, jobs and economic growth are sure to follow.

**We are building businesses that might never be profitable**

Financial modelling and planning are done around servicing the customer only. There are two customers, the actual customer and the entrepreneur. But when the entrepreneur's needs come into play, we go from a barely floating ship to a sinking ship.

**We are not all single**

You have to bring down costs when you start, but it's not always possible. The popular image of an entrepreneur is a single person, sharing a flat with 2 or 3 friends, eating noodles for six months to cut costs. But most of us are married, have kids and have real-world financial responsibilities. I cannot switch the needs of two children off for five years with a one in ten chance of possible business success. We need to be realistic.

**False data and increased risk**

Because we only consider the cost of serving the customers' needs we can end up making decisions on false data. The reality of what the business SHOULD be delivering is not reflected because it is only serving the customer and not the business owner too, as it should. So instead of killing a business venture because it will never float we decide to give it another 6 or 12 months only realise it will never float when it is too late. It increases the risk to the business owner and any other investors. It increases your cost of failure.

We need to shift from an over-focus on business success towards entrepreneurial success. Grow successful entrepreneurs first, then the business can follow.

Everyone knows entrepreneurship is not delivering. Everyone can see it fails, but for some reason, we do not talk about it. It's time to break the silence. We should stop scaring people from a path of entrepreneurship simply because we religiously hold on to a system that does not work for entrepreneurs and in the end, does not work for us either.

We should design businesses that serve, the customer and the owner so we can get entrepreneurship to deliver on its promises of job creation and economic growth. ■

# Act now to **reduce unemployment**...

**The Commission for Employment Equity (CEE) handed over the 18th Annual Report and the public register to the Minister of Labour, Mildred Oliphant, on 28 June 2018, some 20 years after the inception of the Employment Equity Act (EEA).**

The Indaba that followed the report was titled: 20 Years Later – Where to from here?

One of the major findings of the CEE report was that in the 20 years since the promulgation of the EEA, the level of transformation has been unacceptable. Since the publication of the first report, the reduction in White representation in top and senior management has been 20% and 25%, respectively.

**So, the question that must be asked is: Where did the positions go?**

Turns out, just under half of these positions went to the African population, about 11% to Coloured people and Indian people number 25%.

This means Indian representation in Top and Senior Management (TSM) sits at 10.4%, or nearly four times their population size of 2.8%; with African business people at 20% or one quarter of their portion of the economically active population.

The Chairperson of the CEE, Ms Tabea Kabinde, is clear that the above is "insufficient transformation to even consider a sunset clause", and I agree. However, I'd like to suggest that we may be fighting the wrong battle.

Codes, targets and fairness...

The B-BBEE Codes set clear targets for Black participation in TSM at 60%, so another 20% shift in this category would bring this spot-on with the BEE targets for White participation in TSM.

If we just about double this rate of transformation and immediately remove 20% of the TSM positions from White people, following the same distribution, we have 41k fewer white managers; 21k more African managers, 4k Coloured and 10k Indian managers - hardly a drop in the ocean of the 9.5-million unemployed, in terms of the expanded definition of unemployment. This expanded definition is critical because it includes discouraged work seekers who really should have a job.

The focus on transformation in TSM positions is important and the lack of transformation is concerning, but it pales by comparison to the overall employment statistics.

If we match the numbers of the CEE Report and the Quarterly Labour Force Survey (QLFS), there are a total of 16.4-million people employed, of which only 7.3-million are from the designated employers and government that submitted their reports - so we do not, in fact, have the accurate Employment Equity breakdown for the full number.

What we do have, however, is an unemployment crisis, an unemployability crisis and an un-promotability crisis.

There are 3-million African semi-skilled and unskilled workers in formal employment according to the CEE Report. This number is probably close to 7-million if we extrapolate the CEE report to align with the QLFS national statistics. According to the QLFS for Q1 2018, there are a further 8.5-million unemployed African people who need jobs.

The report states that, between 2008 and the first quarter of 2018, the working age population grew with more than 6-million. Of this number, 95% or 5.8-million fall into the African demographic.

During the same period, the economy created 3.5-million jobs - which may seem impressive, but is still not nearly enough for the population growth.

Expanded unemployment among African people went from 36% to 41%, meaning another 2.7-million more unemployed people in this demographic.

**Does the 'White unemployment crisis' exist?**

Let's have a look at what has been termed the 'White unemployment crisis'. Briefly, there is no real crisis. White expanded unemployment went from 6.9% to 9.8%, but with the reduction in total numbers, this means we now have just more than 40,000 new unemployed White people for a total of 205,000 - just 2.2% of the unemployed population.

**So what is the problem?**

In my view, there are two serious problems. In the first instance, the economy is not growing and we are not creating jobs fast enough. In the second instance, we are not providing quality education to our youth, especially our African youth. If they do find a job, they are stuck at the bottom of the employment chain in unskilled and semiskilled positions.

The numbers are stark and shocking: The national unemployment rate of high school dropouts is 43% higher than the average of everyone else combined, and they make up 46% of the unemployed. So the future is especially bleak for youth who do not finish secondary school.

We have to find working solutions to the hard questions, and take the action required to change the dynamic.

# ...and **raise education** levels

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**HERE ARE TWO CONTROVERSIAL SUGGESTIONS FOR CONSIDERATION:**

**1. Replace BEE with employment creation incentives**

Imagine if we stop transformation altogether; put the BEE Codes on a sunset cruise and incentivise everyone, Black and White, to create new jobs. Even if in the absurd and extreme case, this causes the entire unemployed White population to get absorbed first.

There are only 205,000 unemployed White people and 118,000 unemployed Indian people in the economy - the rest already have jobs. More importantly, most of the job opportunities can be harvested for African people via targeted job creation incentives.

**2. Privatise basic education**

Subsidised public transport has been around forever. Imagine if we have subsidised private education?

If government engages with private schools and subsidises private education with the exact quantum that we spend per child in public education, we will see private schools take over most basic education in a short space of time. This subsidy can be directly linked to the parent's ability to pay, with higher subsidies in poorer communities. The problem of poor basic education in public schools will have solved itself entirely in less than a decade.

The future of the unemployed

At the current rate of expansion of the population, if 6-million new job seekers in 10 years translates into 600,000 per year, we need to create at least 3-million new jobs in the next five years just to stay at the same spot.

We're treading water. In order to bring the 9.5-million unemployed figure down we need more - much more.

The recently released draft amendments to the Amended BEE Codes propose the exemption of all Black-owned business from compliance with the BEE Codes.

We all know what this will bring: Increased narrow based empowerment, increased fronting or 'Black facing' of the economy with more companies outside of the net of legislative or compliance pressure to promote and develop Black employees.

If it easier for business to create a 51% Black ownership structure to avoid compliance with the BEE Codes, many will do it, fronting or not. Unfortunately, this 'smoke and mirrors' non-compliance will do absolutely nothing to the unemployment numbers.

I know somewhere in this there is a high road and a low road scenario – and there may even be one where we win at everything. However, as a start it would be great to get out of the 'let's shoot ourselves in the foot' scenarios. ■

*[Statistics from CEE18 and QLFSL Q1 2018]*

# Companies don't **take Corporate Governance seriously**!

**Professor Mark Graham** | Convener - Understanding Integrated Reports Executive Short Course | **UCT Graduate School of Business** | mark.graham@uct.ac.za | @UCT_news |

Ten or 15 years ago, boards would meet four times a year and most offered little more than a rubber-stamping exercise. However, now in terms of the company's act and the King IV Principles, stakeholders require far more from them.

How is this board creating value, and perhaps even more importantly, how is it preventing value from being destroyed? Learning to ask these questions at the right time could perhaps help avoid the next Steinhoff or the next African Bank.

The integrated report is the one thing that, if done properly, can create a vehicle for people to start asking such questions. And a good starting point is for board members and company directors to take steps to familiarise themselves with how to use this critical tool more effectively.

**Importance**

Too many SA companies, however, still don't appear to take these issues seriously enough. Only last year, at Naspers' AGM, the company's Chairman Koos Bekker derided the importance of corporate governance saying it was no more important to a business than washing your hands is to a football team.

"It sounds wonderful," he was quoted as saying. "If you want to be the best soccer team in the world it is important to wash your hands after using the bathroom. But will you win? Not unless you train the hardest, recruit the best and are merciless in your ambition. Once you have won, then you can look at things. If you lose, the best governance in the world can't help you." – Koos Bekker

Bekker is unlikely not to have been aware of what was happening at South Africa's state-owned enterprises at the time. It is equally unlikely that he missed the collapse of African Bank in 2014, which was almost entirely due to a failure in corporate governance.

It's inconceivable that he could have overlooked what happened at Steinhoff just a few months after he made these comments. That was a breakdown in corporate governance so spectacular that it rocked the entire JSE and damaged the pockets of millions of pension holders.
Yet still the majority of companies do not appear to be prepared to act.

Year after year, when judging the EY Excellence in Integrated Reporting Awards that cover the top 100 companies on the JSE, we find that corporate governance matters are generally relegated to the end of the report and dealt with in a tick-box manner.

As events continue to remind us, however, this can't be a sustainable approach. Even with the Steinhoff matter still hanging over the country, we've been faced with questions around Resilient, VBS Mutual Bank and KPMG.

**Disclosure**

A lack of disclosure on the part of boards is preventing stakeholders from being able to interrogate what boards are doing.

Simply stating the mandates of board committees and when they met tells us very little. Stakeholders should be told how the board was constructed at the outset. What is the culture of the board and how it operates? Are members given the chance to ask questions and to be confrontational, or is an emphasis placed on achieving consensus?

What are the important decisions that were made and the risks that had to be confronted? How was it decided who should be invited to the board and how much emphasis was placed on ensuring diversity in terms of age, race, gender and experience?

This would provide an idea of how these organisations are really being run. Nedbank is one of very few local companies that does provide information on board deliberations, and its integrated report stands out for this reason. General Electric in the US is another company that does this very well.

The governance section of the company's integrated report opens with the lead director explaining some of the key issues that the board

> **A lack of disclosure on the part of boards is preventing stakeholders from being able to interrogate what boards are doing.**

is dealing with and what its approach has been in discussing them. That allows stakeholders to have a sense of how the board is thinking, and what it is thinking about.

**Self-clarification**

The significance of putting this into an integrated report goes far beyond just telling an organisation's stakeholders what it has been up to, however. It forces the company to clarify its approach for itself.

Documenting these things must make those involved reflect on what they are doing and how they are doing it. If they're not comfortable being transparent about the decisions that have been made, they should reconsider why and how those decisions were reached.

It's become impossible to ignore the importance of corporate governance at South African companies at this point in our democracy's history, yet we are still not using all the tools at our disposal to get it right. The integrated report should be the starting point for a discussion on what boards are doing, and how they are doing it. ■

# Creating a **Future Ready** professional firm

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It's time for accounting professionals to embrace change within our ever changing technology era.

**What is a 'Future Ready' Firm?**
A 'Future Ready' firm embraces change, implements innovative technologies and creates a culture that is attractive to the Millennial Generation.

As Machine Learning, Artificial Intelligence, mobile and voice activated technologies automate more tasks and change how work gets done, 'Future Ready' firms must leverage these advancements in order to stay relevant and meet the needs of clients and prospective employees.

Today, clients expect to have 24/7 access to data that provides insights into the health and wealth of their business. At the same time, the Millennial Generation has grown up using the Internet and view mobile devices as an integral part of both their work and private lives. They also expect their employers to understand the benefits these technologies provide.

A firm that does not implement processes and workflows that leverage these technologies will be passed over by not only prospective small business clients but prospective employees as well.

**How to create a 'Future Ready' Firm?**
The best way to create a 'Future Ready' firm is to take that first step. Do not feel compelled to implement change all at once. That can be overwhelming. Take small steps and learn along the way. As you gain more confidence and take more steps, you will soon look back and realize that your firm's transformation is well underway.

One easy first step is to implement one new process or workflow within your own firm that leverages a tool built on a new technology. Starting using an online accounting software tool, like QuickBooks Online, to manage your own firm's books. Implement a collaboration app, like Slack or Google Docs, across your firm so you can learn how it works and realize the benefits. As you become more comfortable, take another step. The more familiar you become with these new tools, the more confident you will become to implement additional new workflows and recommend them to your clients.

Another suggestion is to connect with and learn from other professionals who have transformed their practices. Join a professional organization, focused on educational and networking opportunities to learn about innovations happening in the industry. Employ someone who is knowledgeable about new technologies and empower them to implement change across your firm.

Over time, you will have a thriving firm that meets the needs of its clients, employs an engaged work force and is one who others emulate.

**How is AI going to affect a 'Future Ready' Firm?**
AI, or Artificial Intelligence, is transforming the accounting industry. It is at the foundation of enabling accountants to provide key insights and advisory services to their small business clients that can truly affect their success and change their lives.

'Future Ready' firms understand this impact and view AI as a tool that helps them be a more trusted advisor to their small business clients.

Imagine you are an accountant and have several restaurant clients. Through QuickBooks Online and its AI capabilities, you can identify purchasing, revenue or wage trends that lead to cost savings, economies of scale and insights that enable you to recommend to clients concrete ways to improve the management of their businesses.

As automation eliminates traditional, time-consuming data entry tasks, accountants need to transform the services they provide. AI enables that transformation by helping accountants be trusted business advisors to their clients. 'Future Ready' firms that take advantage of AI will be viewed by their clients as a trusted business partner who provides a highly-valued advisory service that directly impacts the bottom line. ■


# SUPPLY CHAINS CANNOT BE SHRUNK INTO GREATNESS

**Why outsourcing can unlock value in tough economic times**

No one will argue that South Africans are facing tough economic times. Our inland fuel price just exceeded the R16 per litre mark, inflation is hovering around 4.5%, and our economic growth forecast is a modest 1.7%. These factors, combined with continued uncertainty surrounding policy decisions and the ever-present rating agencies threatening downgrades, have created a particularly challenging environment for local business. As more and more businesses tighten their belts, there will be undoubted scrutiny on cost drivers, and more often than not, the supply chain will be one of these. It is, however, short-sighted to simply cut costs, it is far wiser to seek to improved agility and responsiveness within the supply chain to increase one's ability to react to cost pressures, and as swiftly ramp back up when the market demand recovers.

"A traditional response to economic pressure is often to seek cost savings within the supply chain, and while this is not completely wrong, it may well be short-sighted", says Tyrone Rennie, Solution Development, Marketing and Strategy Executive at supply chain specialist Barloworld Logistics. "The real pain experienced within a supply chain is often not the costs associated with any single activity, but the cost constraints built into the network through asset ownership and internal management. Often, a simple outsourcing model can create the flexibility required for an organisation to down, and up-scale, capacity and the associated costs in response to demand."

Outsourcing can be viewed as a dirty word, often deemed to imply a lack of control and even additional costs, but a true collaborative partnership between organisation and supply chain provider can create far more benefit than downside. Through expertise, leveraged networks and economies of scale, an outsourced supply chain can offer not only far greater reach than an owned one but also flexibility in terms of capacity and partners. When economic pressure comes knocking, or demand dips, it is essential to maintain quality and efficiencies to continue to create customer loyalty, while at the same time being able to pair back where necessary.

"There comes a point where cost-cutting is erosive of value – it is a simple fact that an organisation cannot shrink its supply chain into greatness", argues Rennie."This is where the value of partnership comes to the fore. The ability to rapidly up-and-down scale is only possible through a commercial model that includes variability. A supply chain control tower, for example, is a model that intrinsically accommodates variability in demand, as well as having the luxury of predictability and foresight built in." Control towers and outsourced partnerships are by no means new but deserve a closer look thanks to technology innovation that certainly highlight their benefits in constrained market conditions. Advances in how 4PL supply chains are managed are creating a confluence of visibility, predictability, orchestration and execution thanks to cloud-based, up-to-the-second technologies that create integrated holistic views of supply chains. There is a myriad of advantages unlocked through these models, but the one most pertinent within a constrained economy is the ability to swiftly identify areas where the supply chain can be moulded, downscaled or augmented to provide the type of flexibility required to meet bottom-line objectives.

"There is no doubt that there is value in expertise, and the supply chain is no different. Outsourced or 4PL partnerships created intertwined strategies that accelerate growth, unlock market share and deliver financial metrics", states Rennie. "There is immense satisfaction in the ability to grow a customer's business, but it's during the tough times, where the real beauty of such models is really on display. The ability to predict and pivot in real-time in response to shrinking demands or economic pressures, without compromising the quality of individual supply chain activities or threatening the entire network, is where the true value of outsourced supply chain solutions lie."

# 24/7 CX only for night-owls?

The world of the 9 to 5 career is now a thing of the past. Within recent memory, businesses would work all day and close at 5pm. Now, your customers (and your workforce), have moved to a landscape of flexi-time, shift work, 7am to 3pm or more, with a view to accommodating freelance work, family commitments or the enjoyment of lifestyle pursuits such as sport or gym.

The point is, your customers now expect to do business at equally unrestrained hours – over the weekend, late at night, or early in the morning.

Are you delivering customer experience (CX) and service that meets their expectations?

For the most part, companies have access to customer service options that allow for this, with the introduction of digital channels, automation and self-service, it's far easier to interact with your customers 24/7. With the exceptions of some industries such as the financial sector which in many cases still requires customers to be present at a branch for compliance' sake, customer interaction resolution around the clock is at your fingertips.

## THE CASE FOR 24/7 AVAILABILITY

### Increased business opportunities

Instead of asking your customers to come back in the morning (Mondays to Fridays only or shortened operating hours on weekends), you can assist them when they need it, allowing more hours for more opportunities to resolve queries, sell products and services or conduct campaigns. In effect, you are magnifying your market, just by being available for more hours of the day.

### Ease of doing business

So many interactions can be conducted without involving human agents. You can have chatbots assisting with general queries, product information and even facilitating sales. Automated processes can assist with simple enquiries and more. In turn, this means that either fewer human agents need to be on hand to deal with customers, and/or that those human agents who are present can handle the more complex tasks. This means that your efficiency is being optimised and more often than not, CX is enhanced.

### Rapid response and feedback

In an age of instant gratification, your customers want service now. Even if this is not always possible, it is important to manage their expectations and communicate timelines every step of the way. Who is dealing with their query, what are the contact details and name of the person or department managing it and how long will it take? Customers expect this information to be readily available and communicated, particularly if the process is complex and there are multiple tasks that need to be completed to achieve a result (e.g. a successful loan application). This can aid in defusing problems before they get out of hand, leading to improved customer retention and an opportunity to build customer loyalty.

### Working with your data

The data you have accumulated on customer interaction preferences can guide you in developing more targeted business and customer support strategies - via insights gained through data analytics, you could find out when individual customers are more likely to be available and open to doing business according to the time of day that they typically interact with you or buy from you.

> **"This will help you manage and schedule your workforce better..."**

This will help you manage and schedule your workforce better, as well as provide an opportunity to offer a more personalised service to customers.

Your customers should no longer feel like they have to wait to speak, email, chat or approach you, and your business has the opportunity to work effectively through extended hours without taxing your workforce too hard (remember, some people prefer to work at night, for example, while others need to be available to do the school run).

It's about meeting human preferences and being able to match these with efficiency and professionalism. ■

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PART 3 OF A 3-PART SERIES

# How to build a **customer-centric** organisation

Customer-centric organisations achieve success by providing consistently delightful customer experiences. In this, the third article in our series on customer-centricity, we explore how to emulate their successes.

**Your most important asset**

The basic assumption of a customer-centric approach is that our customers are our most important assets – primarily because it is both harder and more expensive to get new customers than it is to keep old ones.

That doesn't mean we shouldn't spend time and money on getting new customers; just that if we focused proportionately more of our attention on existing customers rather than looking for new ones, we'd keep more of our customers for longer and get more value out of them. (As a rule of thumb, winning organisations spend two thirds of their time on existing customers versus a third on selling to new prospects.)

**How to become more customer-centric**

To become more customer-centric, organisations must fundamentally change their employee culture, and underlying that, how their employees think about presenting the organisation at all touch points throughout the customer life cycle.

To achieve that, they must put in place coaching programmes that aim to change the culture of their employees to display more of the behaviours of successful organisations.

However, traditional coaching programmes are time-consuming, costly and lack scalability. You simply can't put 1,000 of your people on a coaching course – it is neither practical nor sustainable.

The trick is to find an intervention that follows coaching principles but is nevertheless scalable and accessible to thousands of people. Self-paced online courses fit the bill, but too many of them go wrong because their learnings are not sustained – that is, no follow-ups are done to ensure knowledge retention.

It's a dirty secret of training that just 24 hours after the end of a course, trainees remember only a third of what they've learnt. What's more, they've forgotten another third and can only remember where to find the remaining third of their acquired knowledge. Another week later, and trainees remember just 10% of what they learnt, know where to find 25%, and have completely forgotten 65%.

**Practice makes perfect**

The missing link between training and retention is to have employees put into practice what they've learnt. Anyone who has ever tried to learn a new language knows that if you don't speak or hear it, you'll forget what you've learnt in books and lecture videos in no time.

In much the same way, customer-centricity must be entrenched through practice.

The form of 'practice' that works best in cultural change initiatives is 'sharing'. But where sharing is feasible in small units, it isn't practicable in large groups. To overcome this, various smaller group initiatives can be used in conjunction with workshops, mentoring and one-on-one coaching. In addition, try to blend it with (digital) social sharing tactics for maximum retention.

**Your checklist**

Reduced to its logical steps, creating delightful customer experiences works thus:

- Identify best-practice behaviours you want to model your company culture on (we dealt with this in a previous article). They can be as basic as communicating clearly, as mysteriously effective as smiling while speaking on the phone, or as adventurous as putting colleagues through blind trust exercises.
- Implement a sustainable, scalable coaching methodology that blends real-world, digital and social sharing methods.
- Commit to repeat initiatives. Cultural change must be sustained and integrated into the training and development fabric of your organisation.
- Identify your direct objectives (e.g. better attitude towards customers). Work out how to measure them (objectively and subjectively).
- In the same way, target indirect pay-offs (customer growth and retention, staff retention, reduced sick days and general improvements in satisfaction and happiness).

**Success factors**

The important thing to remember is that cultural change interventions are not a quick fix. Do not expect overnight success but commit to a journey of change – one that will probably never end as the organisation learns new things and keeps getting better at creating delight.

To tie it all together, organisations would be well advised to create a C-level position dedicated to the customer – the Chief Customer Officer.

But above all, learning to delight customers should be a lot of fun, or we must ask ourselves – why are we doing it? ■

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# **CPD** quality assurance **deception**!

As one of the original members of the SAQA commission which worked on the Professional Body framework and regulations, I am now astounded by how existing and aspirant Professional Bodies, but more so, pre-existing Statutory Bodies, are consciously misinterpreting what Continuous Professional Development (CPD) is and how it needs to be quality assured.

**What is CPD?**

It is an ode to what should be 'Lifelong Learning', the principle that after obtaining a qualification, a certification and finally a professional designation, you need to actively engage in additional training, exposure and experiences, which enhance every aspect of the designation against which you have been registered.

CPD is not a racetrack against time, which you are required to complete to gain sufficient points to re-register. That is how it is now singularly interpreted, but that was never intended to be the goal, the mission, the raison de art to engage in CPD.

Instead CPD has always been there to assure those who depend on your being professionally recognised, namely your employers, your peers and especially your clients and customers, that you are not only competent, but that you are also behaviourally sound and in good-standing with your Professional Body, and that you are up-to-date in best practices to-do with your profession.

That you are current, as are your skills, competencies and behaviours!

**Professional Body obligations**

A properly run stand-up Professional Body is one that takes its obligations towards CPD seriously.

This means a Professional Body which firstly establishes a procedural standard, explicit not only in the interaction stipulated by any would-be CPD provider with the Professional Body, but especially in detailing the CPD element categories, their criteria for recognition, accreditation and endorsement and exposition which would apply in a specific professional environment.

An effective Professional Body endorses CPD providers, be they training providers, suppliers, manufacturers or distributors, professional associations, trade associations and yes, even trade unions.

An effective Professional Body accredits whatever the CPD element is, against specified criteria, using trained and practiced assessors and verifiers to do this work.

**Outcomes and competency**

Essentially to be classified for CPD purposes, every element needs to be mapped and relatable to one or more of the outcomes and competencies listed in a SAQA and now QCTO-accredited qualification which in-turn can be mapped to a SAQA-registered professional designation. Importantly, to be endorsed, accredited, listed and registered with a Professional Body, that CPD element has to have a consequence.

Attendance should NEVER be an acceptable consequence for anything other than a quarter of the points on-offer for participation. A good CPD element is one which has some kind of an acceptable assessment process built into it. The weakest of those assessment strategies, but unfortunately the most pervasive, would be multiple choice testing. Weak because it is a methodology which is often open to abuse and manipulation.

**Generic dangers**

One of the problems to be conscious of, when invited to participate in a CPD activity, is that those generic CPD offerings which appeal to and offer points for multiple professionals from various Professional Bodies to attend, are nothing other than information sharing or product knowledge sessions.

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A little bit of something leading to nothing in-terms of competency development.

Unless the programme is specifically endorsed, accredited and registered with each Professional Body offering CPD points for participation, mastery and accomplishment, that event is worthless, and you certainly should not invest your hard-earned money in it to attend.

**CPD with value**

It's not difficult for any Professional Body to master CPD as an offering.

That institution has preferred providers whose qualifications have already been required to have been mapped into the designations on-offer from the Professional Body.

It already designates employee's as professionals employed by manufacturers, suppliers and distributors within the Industry or sector being serviced.

There is always going to be a product or service offering factored into training outcomes requiring mastery and keeping up-to-date on best application practices. All of this is fair fodder for being included in a CPD element.

Inherent here are a natural list of potential CPD providers who will all be able to profit and benefit from formalising their CPD offering. This is a natural system built for CPD which just needs to be operationalised.

Current practices by most Professional Bodies, of awarding CPD points for attending any talk, any product exposure activation or reading senseless journals and articles with no assessment strategy built in and insisted upon, is at worst negligence on the part of a Professional Body and at worst fraudulent misrepresentation by that Professional Body that it manages a professionally run, professional platform for recognition, improvement and enhancement of its charges.

The point is that effective CPD needs to be a conscious focus, an ongoing pre-occupation of any Professional Body worth its weight.

It is not an afterthought or a SAQA requirement which requires lip-service, but rather, a strategic effort to get it right. ■

# Training **simulators** increase performance and **productivity**!

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As I think back on my career, I think back to my own initial emotions and thoughts. With a degree in my pocket and stars in my eyes I recall thinking: "Working hard is my only option. The world is not going to wait for me, nor will my ship 'come in' and save me from decades of slaving away at a job to earn a good salary – I better equip myself and swim towards the ship. This place is ruthless, takes no prisoners, and will not feel sorry for me when I don't succeed. If only I had a chance to practice what I know so I don't make mistakes and could understand how things have worked before. Just think about the difference I could make right from the first week at my new employment"

Throughout their working lives, many people work towards a common goal – to be educated in a field of interest, to start a career and be successful. Through the stages of education, as explained in the learning objectives of Bloom's Taxonomy (1956), one goes from learning how to read and write, to comprehend, apply, analyse and transform new ideas into solutions. The theory of the subject learnt, is embedded in the students' minds through examinations, assignments, attending classes and completing fields of study.

However, when it comes to the very first day in the workplace, the question that arises is: How easy is it to apply the theory learnt and be successful in a career?

Drawing from own experiences in working in the field of education integrated with industry skills, it became a personal drive to create a mind shift in the way which new job entrants should be prepared by utilising workplace training simulators. More so, integrating simulations into the Skills Development, Employment Equity and B-BBEE Targets. At Metro Minds, we used the empirical evidence found on the study completed on workplace simulators and linked these simulator workspaces with skills development initiatives such as Learnerships, Graduate Programs and Internships.

**What is a simulation?**
To understand how training initiatives are combined with the benefits of simulation, it is important to understand the meaning of simulation first.

Simulation is defined as the imitation of the real-life process or system. Hoffman, Ward, Feltovich, Dibello, Fiore, Andrews (2014) note that simulation is used in many industries and different scopes of work. Echardt (1987) identifies John von Neumann in the late 1940s as the pioneer for simulated concepts and stated that in the last 60 years the applications have been adopted in industries like aviation, mining, medical, technological and military disciplines.

The traditional 'on-the-job' is only as good as the expertise the new job entrant is exposed to. Accelerated learning was used in the simulation-based programs with very positive outcomes.

**Learnership**
Metro Minds recently completed an occupational driven Qualification (Learnership) in the field of Freight Forwarding, Customs Compliance and International Logistics. Based on accelerated learning principles, the program was completed in three months with exposure to all aspects of business in a simulated space.

We sponsored five school leavers to participate in the simulator with a group of candidates starting their Learnership journey. According to the empirical evidence found, it is suggested that five days spent in a well-designed simulated environment, is equivalent to up to twenty-five days in the actual work environment. The sponsored students on the program were successfully accepted into new workplaces a week after completion of the program. The interviewer commented that she has never interviewed any new industry job entrant that already understood the foundation of the business and the industry.

These programs are also now integrated into our new program offering matriculants a GAP year. Assisting youth to make better career choices, being empowered and exposed to many aspects of multiple industries whilst achieving a qualification in a simulated environment are proven to create a multi-skilled and experienced individual.

Nielson (2011) stated that simulation is not just digital, e-learning or technology based, but can be done in contact sessions, online and broadly used by many professions. The implementation thereof would be the keystone of the financial benefit the organization will experience and record.

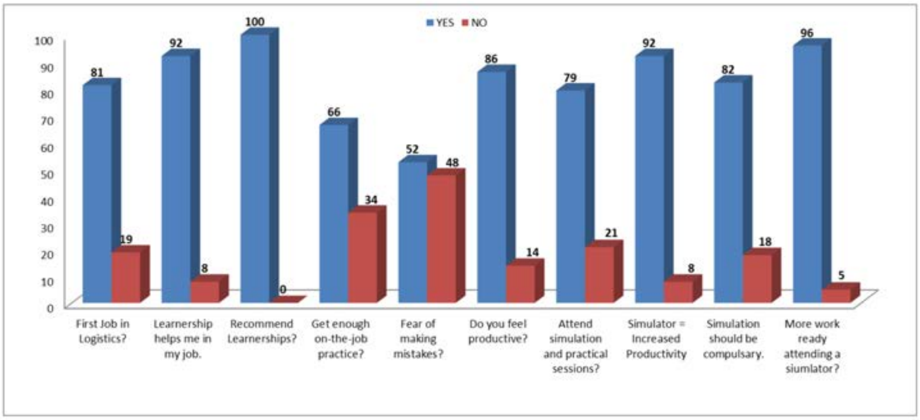



**Figure 1: Respondents' views on Workplace Simulator, Metro Minds (2014)**

Another questionnaire was focused on the learning success and a particular emphasis on the possibility of utilising workplace simulators for greater workplace success with logistics organisations managers, directors and decision makers. Learning success was tested with stakeholders known as middle management or director level participants (sample size = 17). Telephonic interviews shaped the questionnaire results into more detailed findings.

The questions discussed with these stakeholders from a web-based questionnaire and follow-up telephonic interview included:

1. Would you be interested in new job entrants to complete a 6 to 8 months' Workplace Logistics Simulator before starting any job functions in your organization?
2. Would you say exposure to simulation of the logistics environment prior to new talent entering the industry, will help improve performance and reduce risk for your organization?
3. Would you consider sponsorship of simulator rooms/ systems to be used or be a host for facility tours?

**Figure 2: Responding data on Learning Success Questionnaire, Metro Minds (2015)**

The answers were captured in the form of a graph and illustrated as per the responses.

Based on this evidence, we incorporated simulated training into programs catered for employed individuals to assist them with continuous learning and extending their knowledge and skills. Simulation training are found not only to benefit first time job entrants or trainees, but also for the experienced workforce.

**Cost benefit**

The costs to implement such programs are questioned widely and as proposed by studies conducted by Hasluck (2008), Berger and Pilz (2009) and Hogarth (2005) the consequential benefits of the workplace simulated programs outweigh the cost to set up such programs.

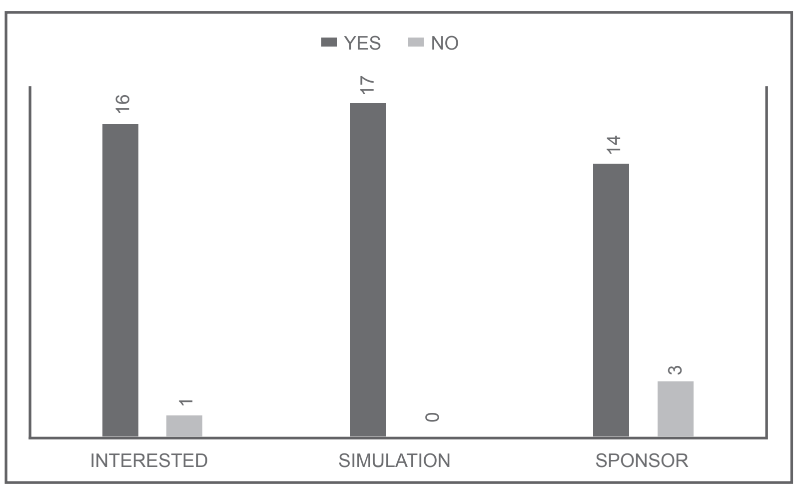
From the case study findings, cost of time, cost of clients, cost of energy and cost of money play a significant role in the business environment. The outcome indicated a 26% improvement in productivity of the individual and a saving of 540.88 hours over a year. If exposed to a simulator before actually executing the real tasks, the case study indicated an improvement of an employee's performance as well as an increase in productivity.

Apart from the impact on the recruitment and retention of employees, the benefits of simulators extended into the talent retention scope and the creation of high performance individuals and teams. The implementation of workplace simulators in the multiple sectors can contribute to the target the NDP has set to decrease unemployment to fourteen per cent by 2030.

In the South African skills perspective, the money spend on skills are incentivised through the funding models from SETAs, contributions to Employment Equity, developing leaders and successors and the large spend and focus on contributing to ESD and Skills Development pillars on your B-BBEE scorecard. Collaboration of internships, learnerships, and workplace simulations can contribute to their policy to achieve these targets.

After a few years of research and driving the ideas around simulation the positive impact of simulators is found to stretches across industries, businesses, individuals and communities and could be a solution to many important issues like poor performance, lack of training and a decrease of unemployment.

Workplace simulators, if implemented efficiently, will display real innovation in the upskilling of new and existing workforce across industries. ■



# The Internet of Agreements

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While much of the recent media hype about blockchain technology has been generated by bitcoin and the controversial role of cryptocurrencies, many blockchain experts are hard at work exploring other, potentially revolutionary applications.

One such application is the concept of smart contracts, also referred to as self-executing contracts, blockchain contracts, or digital contracts.

In essence, smart contracts allow people to exchange money, property, shares, or anything of value in a transparent way - while avoiding the services of a middleman. According to Blockgeeks Inc., Nick Szabo, a legal scholar and cryptographer, first conceived the idea of smart contracts in 1994.

He recognised that by harnessing the decentralized ledger, 'contracts could be converted to computer code, stored and replicated on the system and supervised by the network of computers that run the blockchain.'

**Here, Blockgeeks cleverly compares the technology to a vending machine:**
"Ordinarily, you would go to a lawyer or a notary, pay them, and wait while you get the document. With smart contracts, you simply drop a bitcoin into the vending machine (i.e. ledger), and your escrow, driver's license, or whatever drops into your account. More so, smart contracts not only define the rules and penalties around an agreement in the same way that a traditional contract does, but also automatically enforce those obligations."

**Free, Fair & Frictionless**
Having identified the potential power of smart contracts, a group of leading blockchain experts has sought to take it further by establishing a technology vision for bringing smart contracts into regular use.

> **"...digital contracts can be used to simplify deliveries, speed up approvals, and to eliminate expensive and tedious legal processes."**

Driven by a company called Mattereum that was founded in 2017 by Vinay Gupta and Rob Knight, the main objective is to 'bring the power of blockchain software to legal contract execution, and safe and reliable legal interpretation and enforcement to the frontiers of digital trade'.

Mattereum has dubbed this vision 'The Internet of Agreements®': the bridge between the Internet and the deals, contracts, rules and regulations that support our lives.

**The vision is explained as thus:**
'...IoA® will give us new ways to specify, manage, and execute agreements between people, businesses and governments. Built with blockchains, smart contracts and AI, IoA® offers a vision for global supply chains and international commerce, facilitating trade that is free, fair and frictionless.'

In South Africa, and indeed in other developing markets, smart contracts and IoA® can be leveraged to boost economic growth and development in myriad ways. In the South African context, given the recent focus on corruption and lack of transparency, smart contracts could be harnessed to eliminate doubt and bring much needed visibility to these processes.

This is because the blockchain has been deliberately designed to work in an environment whereby participants/users

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cannot necessarily trust each other.

As Mattereum's Gupta explains in an article for the Harvard Business Review, "Records held on a blockchain database are immune to being tampered with by third parties, and can thus be authoritative. Smart contracts can provide automatic and predictable execution, again removing the ability for third parties to subvert agreed-upon processes."

**Possibilities...**

Smart contracts could also transform the agricultural sector. Smart contracts can potentially enable farmers to transact more easily and at a fraction of the cost. It can also allow them to receive payments year round, instead of only seasonally.

Moreover, the use of blockchain or digital contracts can be used to simplify deliveries, speed up approvals, and to eliminate expensive and tedious legal processes.

As an example the owner of a restaurant could purchase coffee beans directly from a farmer in Africa, South America or elsewhere.

He/she could check other people's transaction success with that supplier, pay with a cryptocurrency, coordinate delivery to South Africa, and tie it all up with a smart contract which maybe included import agents.

In theory, smart contracts (and cryptocurrency) could free farmers from a very extensive chain of intermediaries meaning more margin and probably lower cost to the consumer. ■

# Navigate Africa legally

Africa's heightened economic momentum is widely recognised, with the continent now well entrenched as one of the favoured global destinations for investment opportunities and doing business.

The World Bank anticipates that growth in the Sub-Saharan Africa region will pick up from 2.8% in 2017 to 3.5% in 2018 and 3.7% by 2020, while PwC's 20th Annual Global CEO Survey shows that CEOs already operating on the continent plan to grow their companies mainly organically or through new strategic alliances or joint ventures.

Yet, despite the vast opportunities, doing business in Africa can be complex and challenging. Global economic uncertainty, changing political agendas, regulatory regimes and perceptions of over-regulation all influence the business environment, while corruption remains a major risk to confidence and growth on the continent.

**Where, what and how**

It is almost impossible to enter the African business landscape as an outsider and immediately know where to go, what to do and even more importantly, how it is done.

Africa is business-ready and there is a significant appetite for growth on the continent. However, African countries run on a timeframe and language of their own. Legislation – which is so important in guiding new business entrants – can be extremely difficult to access, collect and consolidate, with outdated or incomplete content scattered across a plethora of different websites, if available digitally at all.

Testament to the prohibitive nature of the difficulties and expense is the fact that there is no single source for up-to-date African legislation. This lack of consolidated legislative collections can be attributed to past and present government policies, poor management of both analogue and digital records and poorly resourced law revision departments in governments.

Recognising these challenges and opportunities, we have expanded on the African content and offer a consolidated and comprehensive African legal information solution.

Our library provides access to African country legislation, commentary and regulatory information from a single, centralised platform.

The African jurisdictions available include Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, Swaziland, Tanzania, Uganda, Zimbabwe, Zambia, Mozambique. Additional countries will be added and content developed.

**Keeping up-to-date**

In addition, our online legislation tracking and alert system includes new African content designed to ensure that companies trading in these countries are kept abreast of regulatory compliance changes.

Being adaptable and having a solid understanding of the legal and regulatory landscape of the jurisdictions in which you wish to operate, can help ensure good governance and avoid the pitfalls that may come from with non-compliance with local laws and regulations.

While companies may always have some exposure to risk in Africa, they can craft their responses, procedures and safeguards effectively through the strongest legal base, as they set out to explore opportunities on the continent.

In this way, with our focus on advancing legal intelligence in Africa – we aim to ease the uncertainty of doing business in Africa so that it remains a viable growth opportunity for companies of any size pursuing market development and growth. ■

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# **Unleash** the potential of **arbitration**

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**Speed, cost-efficiency and the ability to tailor the process to fit the parameters of the dispute are among the most often-cited reasons why parties choose to arbitrate.**

In South Africa, however, these objectives are frequently not achieved. Parties who have been promised a faster and more efficient procedure than they would get in the High Court nevertheless find themselves mired in a wasteful, drawn-out process that closely resembles litigation.

This is all the more frustrating because it is unnecessary.

South Africa now has a modern international arbitration statute incorporating the UNCITRAL (The United Nations Commission on International Trade Law) Model, reflecting best international practice.

This includes giving the arbitrator wide powers to determine the procedure to be followed when the parties have not agreed on it. The only strictures placed on the arbitrator are that he treat the parties with equality and afford each party a full opportunity of presenting its case. Neither does the 1965 Arbitration Act, which continues to govern domestic arbitration, impose any formal procedural requirements; by implication, the arbitrator is at liberty to determine an appropriate procedure in the absence of the parties' agreement, subject only to the requirements of natural justice. Therefore, South African arbitrators have always had the statutory green-light to mould the proceedings in accordance with the needs of the specific case. But this power is often not used.

Commercial arbitrators in SA often revert by default to the familiar forms and processes of litigation.
A mindset shift is needed to unleash the true potential of arbitration. Lawyers and parties from modern arbitral jurisdictions will expect proceedings in South Africa to conform to international best practice, as our governing statute now does. Arbitrators and practitioners must consciously avoid trying to impose an ill-fitting litigation paradigm onto arbitration proceedings, and start taking advantage of the procedural flexibility that arbitration offers.

**Practical ways to achieve this are:**

- Witness statements: streamline the process by making the parties' factual evidence known to each other in advance, enabling them to prepare for cross-examination prior to the hearing.

It then it makes no sense to retain oral examination-in-chief, where the contents of the witness statement are simply repeated. Best practice is for the witness simply to confirm the contents of the statement under oath, and then proceed directly into cross-examination. An opportunity is sometimes allowed for the witness to clarify or elaborate upon aspects of the statement; but even this ought to be unnecessary if the statement is clear and exhaustive. In the event that a party wishes to supplement its witness' testimony after statements have been filed but prior to the hearing, this can be done by way of a supplementary statement.

- Limiting cross-examination: South African lawyers generally recoil from the suggestion of any attempt to curtail the right to cross-examination, seeing it as an inviolable pillar of a fair hearing. But there is no right to indefinite cross-examination, and best international practice is to impose time limits, ensuring that counsel do not waste time on irrelevant material, and enabling counsel to plan to cover all the ground that they need to cover in advance.

- Witness time-tables: the arbitrator can ensure the efficient use of limited hearing time by allocating a specific amount of time for each witness – the 'chess clock' method.

The amount of time to be allocated to each witness can be determined at a pre-arbitration meeting prior to the hearing, when the arbitrator has the advantage of having received

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# **Failure to object** to a short payment

Should a creditor fail to object to a short payment from a debtor, this then may be construed as a waiver and result in prescription.

An intention to waive must be inferred reasonably; no-one can be presumed to have waived rights without clear proof. The test for such intention is objective. Silence and inaction will do when a positive duty to act or speak arises.

In the case of Premier Attraction 300 CC t/a Premier Security v City of Cape Town, a security company rendered security services to a municipality for six years. During the second phase it submitted invoices which were disputed by the City. The company then submitted new invoices based on the City's calculations. It disagreed with those calculations but did not communicate its disagreement to the City.

By accepting the City's calculations, the security company waived its rights to claim the balance. The debts became due as soon as the company raised and submitted invoices in accordance with the payment procedures prescribed in the contract. Therefore, the claims had prescribed by the time action was instituted. ■

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factual witness statements and is able to take a view as to the relative importance and volume of each witness' testimony.

- Focused discovery: best practice in international arbitration tends away from the 'carpet-bombing' litigation approach to disclosure, preferring instead to require each party to submit the documents upon which it relies, and then affording the parties the opportunity to request from each other the disclosure of specified further documents or categories of documents, with the arbitrator ruling on the request if the liability to disclose the requested further documents is disputed.

- Curtailing oral submissions: time limits might be imposed upon counsel's opening and closing submissions; or, oral closing submissions might be dispensed with altogether and the arbitrator might direct that written arguments be submitted after the hearing has concluded.

- Dispensing with a hearing in appropriate cases: there is no absolute requirement for a hearing, unless the parties have agreed to it or one party requests it. On the majority of commercial cases, a hearing will be necessary to test the parties' evidence and resolve factual disputes. But in cases where there are no material disputes of fact, or where these are few or simple and can be resolved on the papers, the arbitrator might decide to proceed on a documents-only basis.

In short, South African arbitrators and practitioners need to become comfortable wielding the various tools and methods at their disposal to tailor the procedure for maximum efficiency and to suit the needs of the specific matter. Merely having a modern statute on the books is not enough; only by consciously releasing ourselves from the shackles of litigation-paradigm thinking will we be able to tap into arbitration's true potential and give rise to a vibrant and booming industry that will attract foreign entities to conduct their international arbitrations here, turning South Africa into the regional arbitration hub that it ought to be. ■

# Unit trust **investors to be taxed** more?

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In the recently published draft Taxation Laws Amendment Bill (draft TLAB), Treasury appears to have taken a tough and inflexible stance in addressing the ongoing industry debate on the income tax treatment of disposal of assets within a Collective Investment Scheme (CIS) – commonly known as a unit trust.

Unfortunately, it now seems as though the individual unit holders are likely to bear the brunt of the proposed amendment.

**Capital or revenue**

Currently, amounts that accrue to or are received by a CIS which are distributed to unit holders within 12 months follow the 'flow-through' principle.

This means that the receipts maintain their underlying nature in the hands of the unit holders, in whose hands they are subject to tax.

Treasury has for some time been of the view that an uneven playing field exists between the CIS industry and other industries, and even within the CIS industry itself.

This arises from the fact that the majority of CISs have historically treated profits arising from the frequent trading of financial instruments as capital in nature, and not on revenue account. On this construct, a CIS is able to reinvest its capital gains without tax consequence, or distribute the gains to unit holders, who are effectively taxed on a capital basis at a maximum rate of 18%.

To address this apparent anomaly, the draft TLAB proposes that the disposal of financial instruments by a CIS within 12 months after acquisition be deemed to be income (i.e. revenue) in nature, and not capital.

**Impact**

If promulgated, this amendment will result in a CIS not being able to retain such amounts within the fund without being subject to tax (currently 45%), and it also will not be able to distribute these amounts to unit holders as capital gains.

Instead, unit holders will be subject to income tax on such income (at a far higher effective rate than capital gains), which can range from 0% to 45% depending on the unit holder's overall taxable income.

# **Transfer Pricing** – South African legal system breaks ground

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For some time, multinational enterprises have been bracing for the impending enforcement by the South African Revenue Service (SARS) of transfer pricing rules. This has resulted in these enterprises going to great lengths to ensure that they have thorough transfer pricing policies in place to survive any level of scrutiny from SARS, often at great cost.

Yet, in the case of Crookes Brothers Ltd vs Commissioner for the South African Revenue Service, the first South African case dealing with transfer pricing provisions, it was an unpolished contract that handed victory to the Commissioner.

**The Facts**

Agricultural group Crookes Brothers Ltd advanced loans to its Mozambican subsidiary (MML) and pursuant to the terms of the loan, as well as in its return for the 2015 year of assessment, the group made transfer pricing adjustments to its taxable income.

Thereafter Crookes Brothers Ltd requested SARS to issue reduced assessments, claiming that the adjustments were made in error. The basis for their claim being that the terms of the loan were aligned with the requirements of section 31(7) of the Income Tax Act No. 58 of 1962 (the Act), which would exempt the loan from the application of transfer pricing rules. To support its claim, they also furnished SARS with the loan agreements.

Upon SARS' interpretation of the loan agreements, it concluded that the terms are in contravention of section 31(7) of the Act and decided to reject the request for reduced assessments. This resulted in Crookes Brothers making an application to the High Court to review and set aside SARS' decision.

Furthermore, Treasury has proposed applying the first-in-first-out method with regards to the identification of identical financial instruments being disposed of by a CIS. In order to facilitate this proposed amendment, CIS systems would need to be able to identify which individual instruments were purchased and on which date, in order to track transactions within the proposed 12-month period.

On disposal, the system would need to be able to use this information to distinguish between capital gains and income gains. This will undoubtedly lead to a significant additional administrative burden on CISs and their management companies, and will require major system upgrades. Higher administrative costs inevitably lead to higher administration fees being charged by the CISs, which will further directly impact unit holders.

Various media reports have stated that less than 5% of South Africans are able to maintain their current standard of living upon retirement.

For this reason, it is concerning that Treasury is proposing tax amendments to a popular South African retirement savings vehicle, with a direct impact on the individual unit holders. This could have a negative effect on the already struggling savings culture. Treasury can rest assured that industry players will be very vocal about these proposed amendments. ■

**Outcome**
The nub of the dispute revolved around one clause. The terms of the loan agreements were completely aligned with the exemption, but for the inclusion of what was effectively a boilerplate acceleration clause.

The author of the contract, perhaps inadvertently, inserted a clause in the loan agreement that accelerated the debt in the event of bankruptcy, liquidation, business rescue or judgment against MML. The inclusion of this clause foiled the application of the exemption, the Crookes Brothers Ltd's application was dismissed with costs and the transfer pricing adjustments had to endure.

The court gave effect to the wording of the agreements, irrespective of what the parties may have intended and, ultimately, Crookes Brothers Ltd paid a heavy price for what was a poorly drafted agreement.

**The takeaway**
This case shows that these efforts will be in vain if a company has a weak underbelly. It illustrates that robust, conscientiously drafted agreements outrank opulent transfer pricing policies. If the underlying agreements that orchestrate the dealings between connected entities are not up to spec, such entities stand to be snared by the transfer pricing provisions. ■

# Collective investment scheme trading profits

Paragraph 61 of the Eighth Schedule of the Income Tax Act 58 of 1962 (ITA) provides that a holder of a 'participatory interest' in a portfolio of a collective investment scheme (other than a portfolio of a collective investment scheme in property), must determine a capital gain or capital loss in respect of the participatory interest only upon the disposal of that participatory interest.

Any capital gain or capital loss in respect of the disposal of an asset by a portfolio of a collective investment scheme (other than a collective investment scheme in property) must be disregarded.

Section 25BA(1)(a) of the ITA provides that amounts (other than amounts of a capital nature) are taxable in the portfolio of a collective investment scheme unless they are distributed to participatory interest holders within 12 months of accrual.

Some collective investment schemes trade frequently in the underlying assets in order to try and maximise the return on investments for their investors.

In practice, the trading profits realised by these collective investment schemes are generally treated as being capital in nature and, consequently, disregarded in terms of paragraph 61.

In the Budget Review 2018 (Budget), it was announced that National Treasury has raised a concern that collective investment schemes that trade frequently, by constantly acquiring and disposing of underlying assets, are acting contrary to current case law by treating the realised profits as being of a capital nature.

The Budget thus proposes that the current rules for collective investment schemes be clarified to provide certainty on the treatment of trading profits realised on the disposal of underlying assets. ■

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# **Millennials** key to **enforcing** King IV

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**Laws and regulations in South Africa govern the preparation of financial statements for companies. Companies have the option to either apply International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) when preparing financial statements except some companies with a public interest score below 100.**

The eyes of the world are again fixed on South Africa, as the country finds itself at a turning point in its democratic history. From state capture to large-scale corporate wrongdoing, 2018 will hopefully see the South African business society experience an age of ethical enlightenment, or run the risk of potentially alienating entire generation millennials (also known as Generation Y) and replacing the millennials, Generation Z.

While taking part in a King IV panel discussion hosted by Mazars, Michael Judin, an attorney and member of the King Committee, stated that he believes millennials and Generation Z can play an integral role in ensuring local corporates apply a more ethical approach to corporate governance and comply with the King IV report.

"The coming of age of millennials and Generation Z together with the rise of social media, have changed the global corporate environment. Businesses vehemently protect their image, by ensuring they adhere to strict ethical standards. When they are seen as having acted in an unethical manner, or have associated themselves with individuals or entities that are perceived to be unethical, more often than not, millennials Generation Z will demonstrate their disapproval." - Michael Judin

Judin used the incident between Nestle and Greenpeace as an example of how public opinion can change a business. In 2010, the environmental organisation started a campaign against the world's leading nutrition, health and wellness company for its use of suppliers that were responsible for causing deforestation in the Indonesian rainforest.

The campaign, commonly known as the Kit-Kat campaign, was so powerful that the food giant had no choice but to change its ways. This proves that corporates can no longer avoid embracing good governance while still expecting an unblemished image.

### King IV - no longer a tick-box approach

The King IV report on corporate governance has moved towards an outcome-based method, which means corporates actually need to enforce King IV and prove that they have done so. This is exactly what millennials and Generation Z are looking for.

Millennials and Generation Z have evolved into a generations that want to associate themselves with brands and organisations that are ethical and environmentally friendly. Corporates spend millions each year to ensure that they change their business to be more environmentally friendly, in order to attract millennial and Generation Z clients.

King IV has also simplified and reduced the amount of governing principles to just 17 from 75, enabling millennials and Generation Z (and those not falling within those categories) to easily understand what good governance entails. The King Committee has gone to great lengths to simplify the Code in King IV. Not only is it easier to understand, but it fits onto 'one page', which will cater for the ease of use millennials and Generation Z are always striving for.

### King IV - part of corporate DNA

The only way South African corporates will experience an age of ethical enlightenment, is to make King IV a part of their DNA. Every single employee must have ethics at the heart of everything they do.

It doesn't matter what industry you are in, ethics and good governance should be the basis. Not only will it create an ethical environment in our country, it will also empower employees to stand up if they start seeing something that doesn't completely adhere to King IV.

The King Report has inspired us to further develop our services related to Good Governance. Like King IV, we didn't develop a tick-box tool, but rather a guideline for a tailor-made approach for a client to assess their compliance with the King IV principles and outcomes.

We started off by doing research (documents, media, interviews, etc) to understand the current status and then have interactions with the Governing Body to further check potential gaps and opportunities.

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# Role of financial **reporting** in promoting **economic growth**

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**Laws and regulations in South Africa govern the preparation of financial statements for companies. Companies have the option to either apply International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) when preparing financial statements except some companies with a public interest score below 100.**

**Conceptual Framework**

IFRS and IFRS for SMEs have been adopted in South Africa and are developed by the International Accounting Standards Board (IASB).

The concepts and principles that underpin the drafting of an IFRS are outlined in the Conceptual Framework for Financial Reporting (Conceptual Framework). The Conceptual Framework contributes to the mission of the IFRS Foundation and of the IASB.

That mission is to develop Standards that bring transparency, accountability and efficiency to financial markets around the world. The IASB's standard-setting work serves the public interest by fostering trust, growth and long-term financial stability in the global economy. For business, the use of a single, trusted accounting language derived from standards based on the Conceptual Framework lowers the cost of capital and reduces international reporting costs.

**Compliance**

Non-compliance with IFRS could have far-reaching implications for a company and this could flow through to the economy (for example, through job losses), hence it is essential that the key role players in a company should commence now to review the implications of the changes to the Conceptual Framework.

The Conceptual Framework has recently been revised and it will not only assist the IASB in the standard-setting process, but it will enable those who use the financial statements of companies to interpret and analyse the standards. It will also assist companies when selecting accounting policies when a particular IFRS standard does not address a transaction.

**Implications**

The changes may also have financial implications for companies. Companies would need to review their information systems to ensure that the required adjustments to the information systems, if required, are implemented before the revisions come into effect. The effect on the company's liquidity, solvency and other financial ratios, debt covenants, financial performance and the balance sheet would need to be assessed. Whilst this affects companies, this impact is likely to flow through to the employees particularly where their performance measures or share-based payments are aligned with IFRS numbers.

From 1 July 2018, the Companies and Intellectual Property Commission will require companies to file financial statements via XBRL. Thus, consideration should also be given to the likely impact on the company's XBRL filing process which may also have further financial consequences for companies.

There could be other implications for a company, which is why it is essential that the review process commences soon. Board members and shareholders should start asking the right the questions now to ensure that a company has considered the impact of the changes.

**The major changes made to the Conceptual Framework include:**

- Revisions to the asset and liability definitions.
- The inclusion of the measurement concepts and factors to be considered when selecting a measurement basis.
- The inclusion of the presentation and disclosure requirements.
- Derecognition (or removal) of an asset or liability from the balance sheet.

The revised Conceptual Framework can be downloaded from the SAICA website (www.saica.co.za ). ■

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**King IV - not just another requirement**

Organisations should rather see it as an opportunity to improve their businesses. Our journey with our clients benefits them in three ways, firstly, they get a better understanding of the King principles and outcomes. Secondly, they can gauge their progress with regards to complying with the principles and outcomes. Lastly, and most importantly, they get more insight into how they can improve their businesses.

We are confident that 2018 should see a more ethical approach from corporates. The media has done a great job in highlighting unethical behaviour in the industry and that is set to continue. This, in conjunction with the information available online, will see many more South Africans asking questions about doing business with unethical companies. Soon organisations will have no choice but to take an ethical approach in everything they do. ■

# **Cloud accounting** for SMPs

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Cloud – the word evokes a sense of ephemeral beauty. When the word is applied to the computing concept – as in cloud computing it seems to suggest something intangible, floating and just beyond our grasp.

Yet the idea of cloud computing and by extension, cloud accounting software, is not nearly as mysterious as it may at first seem. The 'cloud' is in essence a collection of information shared across the internet.
This means that information in 'the cloud' is not stored on an individual's personal computer but is rather in a central repository, from where it can be accessed and updated by whomever is granted access to do so, via a web browser. Communication and collaboration can take place seamlessly; it also means that your information is always available.

**Small And Medium Practices (SMPs)**
The South African Institute of Chartered Accountants (SAICA) is committed to facilitating the sustainability and growth of the CA profession and in doing so strives to enhance its ability to influence local and international agendas, create positive brand recognition and improve the competitiveness of the CA profession, ensure compliance with regulation and good governance and effectively manage and service the needs of our members.

In this light, SAICA established the 'SMP forum' to identify the needs of, and promote the interests of members in small and medium practices within the framework of the profession and to encourage their participation in the profession.

**Software as a service (SAAS)**
SMPs find the idea of cloud accounting daunting. This is probably because they are not really sure what it is or how it can benefit them.

We talk about cloud accounting as a service, SAAS – you don't download the product, you utilise the software online – you pay a subscription fee, usually on a monthly basis. There are no license fees or long-term contracts.

**What to choose?**
Apart from a lack of awareness of the benefits of cloud accounting there is yet another, more general reason why some SMPs are neglecting to harness its potential power.

This relates to 'decision fatigue' – an idea which presumes that people only have the energy to make a certain number of decisions per day. This means that urgent decisions take precedence over less urgent, but potentially more important, ones. By the time the urgent decisions are dealt with the key decision maker has run out of 'decision gas' and thus stalls.

> **"...you don't download the product, you utilise the software online."**

The problem is that each new day brings its own 'urgent' matters. Thus, the important decisions are relegated further and further down an ever-increasing to do list.

There is no shortcut, around this problem (in general) and specifically in relation to cloud accounting. You simply need to make important decisions a priority over urgent ones.


In the case of cloud accounting software, 'biting the bullet', and taking the time to find a solution which best suits your business will free you up to have more time to focus on the 'important' rather than the urgent. This is because one of its many benefits its ability to save you time.

As accountants we need to leverage knowledge and experience by employing technology, which will free us up from time intensive mundane tasks.

**Business benefits of cloud accounting**
Reduced cost to clients
Before the advent of cloud accounting software, start-ups and small businesses would have had only two options available to them when it came to accounting: either to perform the accounting function themselves (something which would draw them away from their key area of concern, i.e. growing their business, at a strategically

important time) or to entirely outsource the accounting function.

The latter option would incur significant cost, something that a bootstrapping start-up could ill afford. Cloud accounting software now allows such businesses to have accurate and accessible accounting records at a fraction of the cost.

**Reduction of time spent per client**

All of the data entry work can now be done by clients via cloud software and much of the 'number crunching' is done by the software itself – this means that the SMP's time spent on such clients is reduced.

This could at first be seen as a threat to the SMP – but on closer investigation it is in fact an opportunity as this allows quality time to be spent on analysing the client's business, rather than just the number crunching.

**Grow your client base**

This efficiency of the software makes it possible for SMPs to service many more clients at less cost.

Although the profit the SMP generates per client may decrease due to the fact that savvy clients will no longer be willing to pay the same amount for work which they know, no longer requires the same number of hours to complete, (yet, if revenue models are structured correctly) the total profit should increase as the client base grows.

**Ability to focus on adding value**

Instead of spending much of their time on mundane tasks SMPs can now add more value to clients by offering strategic business advice.

As accountants we can do more for you because we are leveraging the tools to help us be more efficient. This allows SMPs to interact with their clients on a different level. This speaks to the need expressed at the recent South African Institute of Chartered Accountants (SAICA) Cloud in Practice Conference.

The consensus reached by the experts present at the conference is summed up by, Jeanne Viljoen, Project Director for Practice at SAICA,

"If you want to remain relevant as an SMP you need to take on more of an advisory role with your clients. You need to determine what you can do to add real value to their business."

We need to be equipped and able to identify, understand and solve our clients financial management frustrations.

**Cloud accounting's potential for bespoke solutions**

There is a multitude of cloud accounting solutions. By definition, each of these is fundamentally similar in function to the others. Yet, some solutions may be better suited to your business and that of your clients.

Choosing your preferred solution is a matter of research and experimentation.

On the same note, there are innumerable additional applications (apps), which you can add on to your chosen software, to cater for the idiosyncrasies of specific client industries.

There are thousands of apps available. Rather than trying to sift through all of these, first determine what your desired outcome is – with regard to a specific client's needs, then, search accordingly and narrow things down to 3 or 4 that you may decide to try.

When it comes to cloud accounting software there really is nothing to fear. On the contrary, if fear is to enter into the decision-making equation at all; it should be on the side of choosing not to embrace the cloud. By not swimming with the 'cloud accounting' tide of change you will ultimately and inevitably be destined to drown in a sea of obsolescence.

The choice is yours. ■

# **The** modern **advisor**

My mom passed away when I was in my late teens and it had a profound impact on my life. It was around 10 years later that I bumped into the doctor who treated her and he mentioned to me that if they knew then what they know now about cancer they could have saved her life.

I have to admit, for a while after that conversation I was angry and couldn't help wondering whether it was 'they' that didn't know or 'him' that didn't know. Thing is, knowing the answer won't change things.

What has this got to do with financial advice and the modern advisor?

Everything!

After a doctor, the next most important person in the client's life is their financial advisor. There is no point in being healthy and running out of money. If that's the case, then as advisors it is important that you are staying as up to date about your industry as you expect doctors to be about theirs? Would you put your life in the hands of a doctor who is following the same methods and using the same treatments and medicine he was using 20 years ago?

The modern advisor needs to see themselves as running a practice where it is imperative that they stay up to date with industry developments and improvements. The industry is changing faster now than it ever has and so, the modern advisor needs to ensure they do the same.

**Key aspects the modern broker needs to consider:**

- Ensure they are up to date with technology and are collaborating with their clients through technology interfaces. If they don't have a technology strategy, it is difficult to see how they would survive in the coming years. (Find a technology partner to partner with unless you have the means and skills to effectively manage such systems in house)

- Ensure that they are familiar with all financial products. It is not good enough to only be able to advise on unit trusts and shares anymore. One bank last year took in more money in structured products than the unit trust industry grew nett from 2016. With Basel III, the banks are willing to pay up for deposits creating great payoff profiles for structured products. Wouldn't you want to invest were you can't lose money? Some advisors will cite their experience and talk these down.

They also said they would only ever wear cotton golf shirts! I urge them to embrace change and enhancements, rather than trying to justify the status quo based on outdated experiences. This is just an example of some of what is available and what the modern client expects and deserves to be informed of.

- Understand why you are in this business. Sounds obvious, but it's not! In the new world of tech, the personal touch will become more valuable and understanding that clients are paying for peace of mind, and not products, should be the heart of the modern practice. People are paying for your advice and like the doctor whose business is based on healing, clients should leave feeling better or with better prospects than when they arrived. People are happy to pay for this expertise.

- Understand digital media. It can make or break you. If your business is authentic and shows it cares, the digital world will share that. If the digital world senses you don't care they will break your business.

- If you're only in it for the money quit now as there are going to be easier ways to make money. This industry is for people who genuinely care about the future of others.

- Become and independent advisor. It is not possible to give clients unbiased advice when required to sell the products of the company who employed you. It's a bit like a pharmaceutical rep playing doctor!

In closing, when clients retire and are disappointed by all the poor products and heavy fees that have eroded their possibility to survive, the modern advisor will never have to answer; "If we knew then what we know now, I could have prevented this". This is because the modern advisor is constantly seeking to learn and stay relevant.

The other advisor?

Well my guess is they won't be around to get the question. ■

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# Determining your **appetite for risk**

As investors continue to be buffeted by uncertainties in the market, the importance of an appropriate, disciplined and strategic investment strategy is increasingly evident.

Emotions are among an investor's biggest enemies, particularly when faced with challenging and unpredictable events.

Discipline and commitment to a long-term financial plan are vital and will eliminate many of the risks lining the path of any investor. As part of such a plan, a clear understanding of your personal risk appetite is essential in order to fully grasp the concept of risk.

**What is risk?**
Risk is definitely not just another pesky four-letter word. For most of us risk means the possibility of losing something. Risk, it can be argued, is the result of information that is incomplete or lacking. If we all had perfect foresight, there would be no risk in anything.

**To summarise, risk is:**
- The quality or state of being in doubt or lack of sureness
- The possibility that a future event may cause harm or the possibility of loss
- The danger of not achieving one's goal, and therefore the deviation from the expected.

Any activity that has an inherent danger often has associated rewards to compensate for that danger. For example, the risk of bungee jumping off a bridge is rewarded with the huge adrenalin rush experienced by the jumper. Therefore, we would expect there to be a positive relationship between risk and reward or, in investment lingo, between risk and return. So, the absence of risk equates to the absence of return and, similarly, without taking risks we cannot obtain returns.

**Manage your expectations**
Every investor seeking return – whether for retirement, further studies, preservation of capital or income generation – should really take the time to get to know and understand their risk preference, before they invest a cent. Once you fully understand how you view risk, you will know where and how much to invest and what return to expect. It will also enable you to manage your future expectations and expenditure.

Risk means different things to different people. Most investors will agree that losses of a given magnitude produce a pain more acute than the satisfaction produced by gains of a similar magnitude. This is often the reason why investors feel overconfident and then expose themselves to the recent best-performing asset class or manager (probably at the wrong time) and remain leery of the worst-performing asset class or manager.

Some investors are concerned about relative risk (underperforming a benchmark or target) and others might be concerned about absolute risk (losing money). Therefore, some investors might be worried about their real drawdown (maximum loss below inflation), others might want to minimise their portfolio's shortfall to a benchmark and others might want to reduce their value at risk. Clearly, the definition of risk is extremely important and each and every investor should be comfortable with their risk preference.

**Setting a target**
In determining your risk preference, you need to carefully consider factors such as investment time horizon, type of investment vehicle, required market

participation and future cash flow requirements. The goal or target set by the investor also plays a crucial role. This target could be inflation (wealth preservation), zero (capital preservation) or an absolute/relative value.

**Investors should consider the following criteria in determining their target and goals:**
- **Liquidity.** This is defined as the funds required by the investor to cover expenditure over a short period of time.
- **Income.** This reflects the cash flow needs anticipated by the investor to maintain their lifestyle.
- **Capital preservation.** This relates to the need for an investor to avoid experiencing a significant decline in the value of their capital.
- **Growth.** This reflects the need to see capital appreciate over time.

Finally, investor's risk preference will be influenced by the type of investor they are. Broadly speaking, investors can be divided into those seeking to grow wealth (mostly preretirement individuals) and those seeking to preserve wealth (mostly retired).

Knowing your personal risk appetite is an important factor in determining what role risk will play in your investment strategy. Once you have considered it, you will be in a better position to develop and commit to your long-term financial plan. ■

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# Start with the end in mind?

There are many definitions of investment risk. Some reference volatility or investment drawdowns. Others centre on the underperformance of an index or sector average. Often, these are shorter-term measures.

So what does risk really mean to investors? It means not achieving the returns you require over the appropriate time periods. In short, it's the difference between modest and meaningful investment outcomes.

Consider an investor saving R5,000 a month (adjusted annually for inflation) towards retirement. At a return of inflation +5% – a typical balanced fund mandate – the investment will grow to over R37 million in 35 years (or R4.8 million, if we strip out inflation). If the fund manager underperforms by just 1%, that value drops by 17%. Underperformance of 2% will result in a 31% reduction.

**Drawdowns introduce risk – but some are more serious than others**

When you are invested in a security and its price falls, it could be concluded that owning it was a mistake. However, it's important to distinguish between temporary and permanent mistakes.

If the price of an undervalued security drops from fair or below fair value to a deeper discount, this can be considered a temporary mistake; one that is likely to reverse. If the price of a security falls due to underlying flaws in the investment case, it is doubtful that losses will be recovered.

**How to try to avoid permanent mistakes when choosing securities**

**1. Valuation**

Irrespective of the quality of a business, the price you pay to invest in it is crucial. If you overpay for a security, the difference between its price and its real worth will become a permanent mistake as it reverts to fair value.

> **"...it's the difference between modest and meaningful investment outcomes."**

Let's consider Microsoft as a case study. This company has exceptionally durable economic fundamentals, but for some shareholders it's been a horrific investment. If you got lured in to the tech hype of the late 1990s, you would have paid a price-earnings ratio of 70 times to invest in it – a bad price for a good company. The subsequent drop in the share price took 16 years to recover.

**2. Moat**

If the profits you're using to determine the value of a business are unsustainable, you will get its valuation wrong. Put differently, you cannot blindly extrapolate past profitability into the future without assessing changes in the competitive landscape. Past examples of companies where investors could quite easily have got the sustainability of profits completely wrong include Kodak, Sony, RIM (BlackBerry) and Netscape. While all were at one point highly profitable leaders in their fields, they were unable to withstand the onslaught of competition and changes in technology.

**3. Debt**

The long-term survival of a company depends on the strength of its balance sheet in its darkest hour. If a company goes bankrupt (or raises fresh capital at a very depressed share price), it results in permanent value destruction for shareholders.

**4. Governance**

An assessment of management is key: if you can't trust the numbers, you can't trust your valuation. Examples in recent years include AIG, Lehman Brothers, Olympus and Steinhoff – all large, trusted names that destroyed value for shareholders.

There are also risks of permanent mistakes when constructing portfolios

There are two grave mistakes when constructing portfolios, which are at the extreme ends of the risk appetite spectrum. The first is regularly swinging for the fences: building highly correlated portfolios that either shoot the lights out or result in tremendous disappointment for clients. This often involves taking a certain view of the world and tailoring portfolios accordingly. But the odds of accurately predicting both the future and its market impact on a sustained basis are low.

The second mistake is calling in sick because you're too afraid of getting three strikes. This results in building overly cautious portfolios, with insufficient exposure to equities or bonds to have a chance of beating inflation by the required margin. In both cases, clients could be bitterly disappointed – 35 years too late. ■

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# Section 12J – more than **just a tax deduction**

While the upfront tax deduction has been a strong draw card for Section 12J, there is more to this investment than tax relief.

Section 12J of the Income Tax Act (Section 12J) incentivises tax payers to invest in small and medium sized South African private companies, referred to in the Act as Qualifying Companies. The goal is to bring the equity investor and the Qualifying Company together, driving job creation and economic growth in the process.

The incentive, which is run through Treasury's Venture Capital Company (VCC) regime, entitles you to deduct 100% of your investment against your taxable income. The VCCs act as conduits, deploying investors' funds into Qualifying Companies.

The hope is that the funding will be put to good use, unlocking capital growth and dividend returns. Though Section 12J came into effect in 2009 it was only after recent amendments to the Act that it proliferated, with over 100 VCCs now approved with SARS and over R2.5billion in equity funding raised.

**More than just tax relief**

It's easy to see the appeal of making an investment that reduces taxable income or shields tax payers from capital gains tax on the sale of an asset.

However, Section 12J is first of all a private equity investment with all its accompanying characteristics (high risk, illiquidity and long investment horizon). As such, it shouldn't form a major percentage of an overall investment portfolio. But given these characteristics it's fair to expect that returns will be higher than conventional assets. The investment also offers portfolio diversification, as the return profile would have a lower correlation to the likes of listed equity or bonds.

**Focus on the investment case**

When investing, put the tax relief aside for a moment and focus on the investment case and credentials of the management team.

Section 12J requires that three years from the first issue of venture capital shares, at least 80% of the investments made by the VCC must have been made into Qualifying Investments. No more than 20% of the proceeds of the issue of venture capital shares may be used to purchase shares in any one Qualifying Company. The Act also has strict criteria in terms of what constitutes a Qualifying Company.

So you need to be confident that the VCC's management team has a track record in developing a well-researched pipeline of Qualifying Investments, the ability to deploy the funds raised in a reasonable time to reduce a possible drag on returns, and the requisite skills and experience to unlock long-term value for both the company and its investors.

**Compliance and risk management**

There are also strict requirements that the VCC must comply with in terms of the Income Tax Act, or risk facing penalties. You need to feel sure that the management team can manage technical tax requirements in an investment offering that is, in effect, tax-managed private equity. So do take the time to satisfy yourself that you're partnering with the right VCC management team, one that can manage both the asset side and the tax side.

Doing so will give you greater confidence that not only have you gained upfront tax relief, you've also unlocked portfolio diversification and the reasonable prospect of enhanced returns for your portfolio. ■

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# Payment trends for Africa

Ever since the Lydians – the ancient civilisation in Western Asia that first used coin-based monetary systems in the 5th century BC – we've been creating payments infrastructure that connects buyers and sellers.

The centralised system ushered in by the Lydians was a revolution – liberating us from inefficient, fragmented and regionalised barter systems.

Today, despite decades of refinement, the exchange of money is still hampered by high transaction costs, complex inter-bank arrangements, foreign exchange controls and more. Even the simplest domestic transactions can still take a few days to clear.

New digital technologies however, have the potential to reshape the way we pay for goods and services, making the flow of value far more fluid and instantaneous - crossing borders and compressing timeframes. The impact could be as revolutionary as the gold and silver coins first circulated by the Lydians centuries ago.


**So, just what are the biggest technology trends set to revolutionise payments in Africa?**

**Mobile payments and mobile banking converging**
South Africa's tryst with on-the-go mobile banking will continue to unfold, as these apps grow in sophistication, supporting both Electronic Funds Transfer (EFT)-based bank payments as well as card-based payments. In fact, services such as 'contactless' Near Field Communication and virtual cards will start to blur the lines between mobile banking and mobile payments.

We'll also see a significant increase in payment features being woven into the design of mobile apps and services. If Amazon's early success may have been buttressed by its famous one-click payment feature, the likes of Google Play and Uber took this one-step further – with a no-click approach. Here, the payment is automatically processed, embedded as an invisible step into another activity that you're doing (such as ordering a taxi for instance).

**New peer-to-peer services connect our individual financial worlds**
The concept of peer-to-peer (P2P) financial services will continue to gather momentum in the coming years, as the likes of P2P lending and P2P insurance become mainstream.

Handy apps will help us to more easily split the bill at the end of a group restaurant meal or help us to save as a community – digitising the South African tradition of 'stokvels' – according to Wikipedia, a savings or investment society to which members regularly contribute an agreed amount and from which they receive a lump sum payment.

We've become accustomed to sending airtime to one another – remotely, instantly and with zero transaction fees. Though this may have been originated by cellular operators, banks will be asked to follow suit, as consumers demand frictionless services for micro-payments and indeed even larger transaction values.

**Digital forex and payments solutions serving uniquely African needs**
Over the coming years, expect to see new mobile payment apps enabling cashless, low-fee transactions between consumers and retailers as institutions across Africa look to technology to stimulate more cross-border trade corridors.

In the business-to-business space, we're already seeing new disruptive services such as the Bitpesa platform –

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> **...expect to see new mobile payment apps enabling cashless, low-fee transactions between consumers and retailers.**

simplifying cross-currency payments between countries and paving the way for simpler imports and exports. There is huge scope for growth in this area, as more businesses see the benefits of embracing digital payment services.

**Digital currencies find their place and their purpose**

So far we've seen a strong focus on the market valuation of Bitcoin and the various alternative coins, as people are drawn in by the 'get rich quick' allure. This surface-level exuberance will cool off, as the valuation establishes itself, to be replaced by deeper conversations about how digital currencies can be used to pay for more goods and services, reduce transaction costs and barriers and increase liquidity in our financial systems.

**Biometric authentication pulls everything together**

Increasingly, we'll see the evolution of concepts such as 'Augmented Identity', as we shift away from passwords, PIN codes, token generators, signatures and the like. These will be replaced by something natural, and very difficult to forge – such as fingerprints, iris scanners, or voice biometric services.

Whether we're banking via an app, shopping on the web, or ordering something from our voice-controlled Alexa device- we're expecting bullet-proof solutions, but we also want the experience to be frictionless. Biometrics holds the promise of addressing both the 'security' and the 'convenience' demands placed on financial services players in the future.

With Payments infrastructure so foundational to our continent's economies, expect to see big changes over the coming years as governments, financial services companies and other businesses start to explore the limitless opportunities of digital. ■

# Tap and Go

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Contactless card, or 'tap and go', payments are slowly gaining popularity as more banks and retailers adopt this method of payment. Shoppers with the technology-enabled cards are benefitting from the speed and convenience that contactless payments offer.

However, with payment as seamless and simple as tapping your card against a machine, what are the risks and how are banks mitigating them?

**What is 'tap and go'?**

Tap and go cards are embedded with a specific chip that allows for near field communication (NFC) – a technology that enables compatible card readers to authenticate transactions by proximity to the card.

The purpose of tap and go transactions was to do away with the time-consuming pin code and authorisation process, speeding up the payment process. The card does not necessarily need to come into physical contact with the machine, despite the requirement to 'tap' it; this action merely ensures that the card is close enough to the machine to be read.

**How safe is it?**

As no pin code is required, there is no true authentication and the card holder is deemed to be the owner of the card. This is a daunting prospect, as it means that if a user's card is stolen, the thief may make purchases using the tap and go function with ease. However, there are security parameters that have been put in place to counter this.

Similar to the EMV (Europay, Mastercard and Visa) chips, tap and go chips are very difficult to copy. Potential thieves need to physically be in possession of the card in order to make purchases using tap and go. Banks have also set payment limits, only allowing for smaller purchases to be made using this method, too. In South Africa, these are typically set between R200 and R500 per purchase.

There is the chance of a thief stealing a tap and go card and making multiple purchases in succession, but the risk is smaller than a copied card being used to make large purchases. Of course online purchasing still carries the same risk as with regular chip and pin, or magnetic strip, cards.

**Security first**

Beyond limiting transactional amounts, banks can also impose random pin requests. While this may seem to defeat the purpose of tap and go, it adds a necessary measure of security and only occurs randomly, every several transactions.

Users can also enable SMS notifications for even the smallest transaction, ensuring that they are alerted to any unauthorised transaction taking place so, even if the card is stolen and used, they can be quick to report it and cancel their cards.

Technically, the responsibility for transactions made on a stolen card can be proven to be the responsibility of the card user, as the user should be able to prove that there was no negligence on their part – something that's not easy to do. However, most banks cover these losses themselves, as they value their customers' business.

**Here to stay**

The technology has seen a relatively slow global adoption, with larger markets exercising caution before rolling it out. Markets such as America are now in the process of deploying tap and go across many major retail chains, establishing the technology as an acceptable payment method, and cementing the likelihood of it becoming commonly used.

In South Africa, several banks and retailers have begun deploying tap and go, and endorsements from recognised payment brands as well as the Payments Association of South Africa (PASA) have ensured that local adoption will only grow from here.

Tap and go is convenient and the security risks are relatively low, especially when compared with other payment methods. It's only a matter of time before tap and go payments are pre-requisites for express check outs, so customers can reap the maximum benefits from this technology. Meanwhile, users should simply exercise caution when using their card: keep it safe and don't delay with blocking the card if it should fall into someone else's hands. ■

# **Multi-Factor** authentication **defence**

As passwords continue to be hacked and attackers circumvent physical biometrics, multi-factor authentication becomes crucial in the fight against cybercrime.

While passwords alone do not provide adequate levels of security, their convenience means that they are still widely deployed. Although they will be phased out as the primary method of authentication on mobile and Internet of Things (IoT) devices in 2018, they are unlikely to disappear completely.

**Predictions**

One of the predictions made in the 2018 Cybersecurity Predictions released by Stroz Friedberg, an Aon Company, is that criminals will go one step further and advance their attacks to override new technologies such as biometrics to authenticate identity. This will give rise to the need for Multi-Factor Authentication (MFA) as more credentials are compromised and biometrics are hacked during 2018.

In 2017 we saw companies continue to fall victim to brute force and phishing attacks. A recent study found that 81% of hacking-related breaches leveraged stolen or weak passwords.

**Breaching biometrics**

As attackers continue to exploit passwords, innovative companies, such as mobile and IoT device manufacturers, are deploying biometrics as an alternative way to authenticate identity.

For example, Apple's iPhone X uses facial recognition technology instead of passwords, and banks in financial centres including the UK and Hong Kong are rolling out biometrics in specific situations, such as voice recognition to authenticate customer service calls with high net-worth individuals.

In 2018, these authentication methods, once requisite only for individuals with security clearances, will move mainstream. Physical biometrics, such as facial recognition, iris patterns or fingerprints are already extending beyond mobile devices to everyday usage, for example, replacing access badges to offices. However, even advanced biometrics will not be bulletproof as a single layer of authentication. The hash value behind fingerprints in a device can be stolen and attackers can use forged physical copies of a fingerprint to hack systems.

Stroz Friedberg goes as far as predicting a theft of biometrics in 2018 that creates a lifetime of exposure for consumers, highlighting the challenges inherent in biometrics having no 're-set' process.

**In defence**

To combat the assault on passwords and attacks targeting biometrics, major financial institutions beyond FinTech companies will adopt MFA technologies in earnest, for example using voice recognition plus a PIN or password to authenticate all customer service calls. Individuals will be required to present at least two of the following pieces of evidence to an authentication instrument: knowledge (something they know), possession (something they have) and inherence (something they are).

The adoption of MFA will see banks run behavioural biometrics authentication technologies in the background of online banking websites, continuously collecting information about a user's interactions, like keystroke and mouse movement, to create a unique user template on that device – and asking for more information if the behaviour doesn't match the template. Major cloud providers will push for users of their platforms to put MFA into practice.

Even as companies adopt MFA, hackers will devise techniques to penetrate new authentication technologies, just as they devised methods to break two-factor authentication with 'SIM swap' attacks. With these factors in mind, Stroz Friedberg also predicts new smartphone-based malware that will come to light in 2018, targeting MFA applications on mobile phones.

It is crucial for companies to widely adopt MFA as cyber criminals continue to successfully target single factor authentication, such as usernames, passwords and biometrics. It is also critical to note that even with MFA, companies will need to remain vigilant and commit to a proactive, continuous process of testing and improving their defences, as attackers will continue to evolve their techniques.

Cyber-crime and the risk that is poses remains a top concern for all companies, big and small, and that is why you need a qualified risk advisor by your side who is able to take your business through a comprehensive cyber risk assessment in order to mitigate the risk of unwarranted access to your most crucial data. ■

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# Corporate **claptrap confounds**!

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**Lucy Kellaway, the former Financial Times columnist, retired last year with an article bemoaning the loss of her 25 year-long war on 'corporate claptrap'. As she points out, management consultant jargon (leveraging, burning platforms, synergy), bland euphemisms (downsizing, scope creep) and breathless hyperbole (ultra-premium, artisan, transformative) continue to proliferate.**

Yet even as the twaddle and bunkum have multiplied, many of the world's best managers and companies have used their ability to speak and write clearly and simply to their benefit. Examples of people who have used their ability to communicate with elegant simplicity to considerable advantage include Warren Buffett, Elon Musk, Steve Jobs and Barack Obama.

They all mastered what the 20th century painter, Hans Hofmann, described as "eliminating the unnecessary so that the necessary may speak." That captures what plain language is all about - communicating the necessary message to readers in a format and manner they can understand.

Not everyone can capture a complex thought with the clarity and precision of Jobs or deliver investment wisdom with Buffett's neat turns of phrase. But nearly anyone can learn plain language techniques to improve communication with work colleagues and customers, with tangible benefits to their careers and organisations.

When you use plain language techniques, you will get the action you asked for, and that is good for the bottom line.

**Some benefits of plain language for professionals and organisations include:**

It builds trust and inspires confidence. People who can talk or write clearly about complex subjects will inspire trust in their audience. The ability to speak plainly shows your colleague or customer that you know what you're talking about and you're not trying to hide anything. People will have more trust in your presentation, contract or product if they feel they understand it.

It avoids potentially expensive misunderstandings. Talking in euphemisms or in fuzzy buzzwords can lead to misunderstandings, which can in turn lead to costly mistakes. For example, an employee who understands the company's information security policy is unlikely to breach it. A customer that understands the terms and conditions of a contract is less likely to inadvertently break them.

It increases productivity and reduces costs. Unclear communication means more emails or phone calls to clarify what was meant. An organisation that communicates clearly in its written documentation should receive fewer complaints and queries from customers, and hence lower call centre volumes. Leaders who brief teams clearly can save a lot of company time by issuing instructions and tasks people understand the first time, with no need for debriefs and re-briefs.

It helps people who speak different languages or come from different places to understand each other better. People from different cultures, social contexts, countries, who speak different languages, need to work alongside each other in today's global world. This situation is ripe for misunderstanding and lost meanings that take time and effort to sort out.

It promotes a sense of belonging and enables people to connect. Most people know how alienating it can be to meet with a group and feel left out because they don't know what a buzzword or acronym means. People respond well when they fully understand what someone is saying, especially in a business context.

**Most of the rules of plain language are appropriately simple:**

- Put the readers or listeners first and give them access to the information that is important to them.
- Put information into short, punchy points; provide concise summaries.
- Uses headings and sections to highlight the info that matters.
- Be transparent and straightforward even when delivering bad news.
- Use terms and words your readers will understand; where you must use jargon or acronyms, be sure to spell out their meaning.

Training is a good way to get all staff to understand the importance of plain language and the benefits it has to the business and their own careers. Training courses explain the plain language principles that are easy to implement and that anyone can learn.

These are important principles for business writing, for all level of employees, whether you're writing internal emails, or emails to clients, reports or proposals. ■

# Data **Fusion**

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Fusion is no longer the vision in research, but rather the preferred solution. The first fused media and brand data is now available to the media industry, comprising of the PRC's PAMS and Nielsen's Consumer Panel. The PRC plans to fuse Narratiive's (formerly Effective Measure) online data to PAMS to produce an integrated data set of print title and site brand consumption.

Single source is dead, as the world becomes more complex, markets are fragmenting and inevitably this single source data no longer does the trick like it used to.

It's easy to see how this archaic type of survey no longer offers a viable solution. The questionnaires are extremely long as more questions are required to understand the complexity of modern lifestyles.

Consumers are acutely aware of their time constraints in this 'connected metropolitan' world and so there are inevitably fewer respondents prepared to answer long interviews and fewer responses per question. This all leads to poorer quality of response which in turn delivers mediocre data.

**International adoption**

Fused data is the internationally accepted method of research, and this was the solution recommended to SAARF in the detailed future proofing study conducted way back in 2014. This preferred method brings previously separate media assets together for the most granular view of consumers while at the same time providing cross platform behaviour.

**Locally**

The PRC and Nielsen will, within the next few months, be fusing their two respective data sets PAMS (Publisher Audience Measurement Survey) and CPS (Consumer Panel), and later this year, Narratiive's online data. This will bring vital consumption data to manufacturers, media agencies and publishers at a fraction of the cost of that of proposed new media surveys planned for next year.

In addition to multi-study fusion being the global best practice and most cost-effective methodology, it makes no sense to build new panels from scratch at great expense to marketers when Nielsen have been running a consumer purchase panel of 4,000 households that has been accepted and used by manufacturers for over 20 years. The CPS has actual bar-coded and audited purchase and consumption data of 5,000 brands by retailer by purchase cycle.

This strongly raises the question - why must brands be compelled to pay millions of Rands and wait until the end of next year to establish a panel that performs the same function as an existing panel that is already subscribed to by manufacturers. The PRC already provides Retail, Automotive, Mobile and banking branded data in PAMS and this CPS diary fusion will add another 5,000 FMCG brands and be freely available to the marketplace this year. ■

# **Digital** in-store **innovation**

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Even though e-commerce has become an increasingly popular consumer option, improving the in-store customer experience is more critical than ever. This 'last mile' presents brands with a final opportunity to either trigger a purchase decision or change future buying behaviour.

In South Africa consumers visit malls as social activities, and many consumers still want to touch and feel products before making a purchase decision, even if that occurs later online. In fact, embracing more impactful in-store marketing assets should become a priority for brands and retailers looking to differentiate themselves.

With retail stores under pressure to increase footfall and sales or risk job losses and potential closures, both retailers and brands are increasingly turning to these innovative in-store solutions as the means to attract customer attention and retention. Today's consumers are rapidly embracing digital activities and this change in society behaviour has impacted not only attention spans but more importantly, what now grabs and maintains attention. This makes leveraging digital in-store solutions a logical next step.

A key question arising around the use of media like window and digital displays, dispensary posters, and till point signage is, 'how do brands make these visuals count and ensure a response from shoppers'?

While there are different approaches, ultimately the consumer must be impressed by both the display and messaging at a critical point in their decision-making process, reinforced in specific areas of the store. Attracting attention during these moments that matter is our ultimate goal.

An example of a media innovation to attract attention is 3D Holograms. We've noticed shoppers taking photographs and filming these displays in-store which indicate not only an engaging noticeable medium, but more-importantly one that is translating to online conversations through social media sharing and creating further conversations, with the brand on display at the heart of the conversation. This is the 'talkability' and buzz that mediums need to create.

**Shelf life**

An important component of the buying experience is on-shelf branding, as this is where a lot of last-minute consumer decisions are made. A loyal repeat purchase for a loved brand versus trying something alternative or new.

For brands attempting to convince consumers to try their product, enter the 'Digital Shelf Strip', these electrifying multi-screen strips first and foremost grab consumer attention with motion, colour and potentially sound. Video has become a core focus in all marketing activities due to its story-telling power. Human beings like stories and videos convey a story better than any other medium. The ability to transfer a lot of information, easily and quickly is something a static print ad struggles to do. By no means is print not valuable in reinforcing messages, video is just proven to be more powerful when the placement and timing is correct.

The 'Digital Shelf Strip' provides more product information to customers in key moments that matter, giving the brand an opportunity to extract or reuse content already created for television or digital marketing, extending the association shoppers have with a product to the on-shelf retail environment closing the loop and proving a truly 360 degree experience. Many consumers now research and compare prices online but purchase decisions still have the ability to be in the moment.

**Mobile done differently**

An alternative to using a mobile device is to leverage trolleys and baskets.

Digital screens on trolleys have been used in some countries where RFID chips localise ads depending on the physical location of a customer in-store. However, one of the challenges in the local market is that shoppers are used to leaving stores with their trolleys and loss of these digital assets can carry a high cost. Connecting consumers using their smartphones with geo-location currently carries too many challenges in the South African market particularly the high-cost data barrier.

This may negate the benefits of using mobile displays in a store-specific environment however our mobile advertising trolley and basket frames are ideal if a brand is aiming to increase awareness and reach. Mobile advertising solutions travelling with shoppers throughout the store and mall environment has unlimited potential.

**Combating shopper fatigue**

Seasonal campaigns like Christmas, Easter, Valentine's, and the like see brands do a big push integrating various platforms for a seamless customer experience. Retail windows are curated to lure customers into the store. However, as campaigns seem to start earlier every year, brand managers need to find a way to manage shopper fatigue and budgets.

For example, many retailers started their Christmas campaigns last year in early November. Expectations are that this will shift earlier to October for 2018. While there is a lot of innovation taking place around in-store displays and window branding, there needs to be a balance between starting campaigns earlier and keeping the attention of consumers. There is a need to create interesting brand messages that can be used for prolonged periods of time. Again, tahis is where the in-store digital experience is vital as it can easily be remotely managed and updated in real-time to refresh content and avoid messaging getting stale.

**The era of digital**

In-store digital displays enable a more agile advertising environment with brands being able to make changes to their content instantly. This completely negates the logistical challenges of changing 50 store-front windows as campaigns end. Imagine using large digital displays to manage and update content from anywhere, at any time.

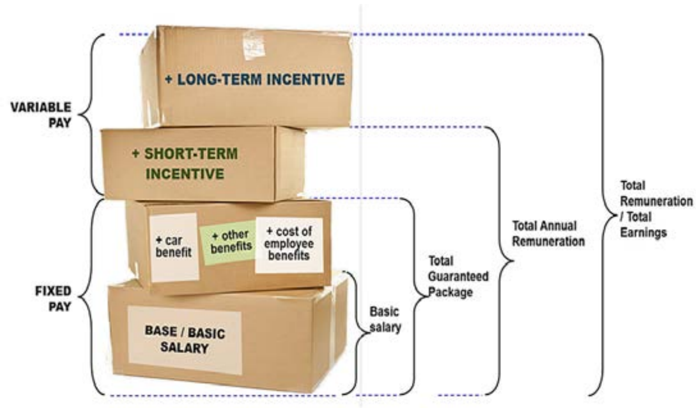
Not only reducing costs and lead times but also enabling retailers to run a diversity of campaigns during the same period. Furthermore, in-store digital displays give rise to targeted audience bursts or specific timeslots applied to target audiences, opening the door for data-intelligence backed campaigns.

There are many exciting in-store innovations in the pipeline especially with brands and advertising specialists having access to more detailed data analysis. The modern retail environment is becoming more intuitive to specific customer interests and needs. ■

# **Remuneration** make-up

**How many times have you been caught out when you are comparing the prices of two products and realise that the container weights are slightly different? If it's really 'apples with apples' then we need to be sure that the compared items are indeed both apples.**

The same truth applies to what makes up your remuneration, when we compare salaries but realise that one comparison includes a bonus and the other did not… it's an apple and a pear.




Around the world, the reward fraternity is working hard to align remuneration definitions and to make sure that we all have a consistent understanding of what the various remuneration elements include.

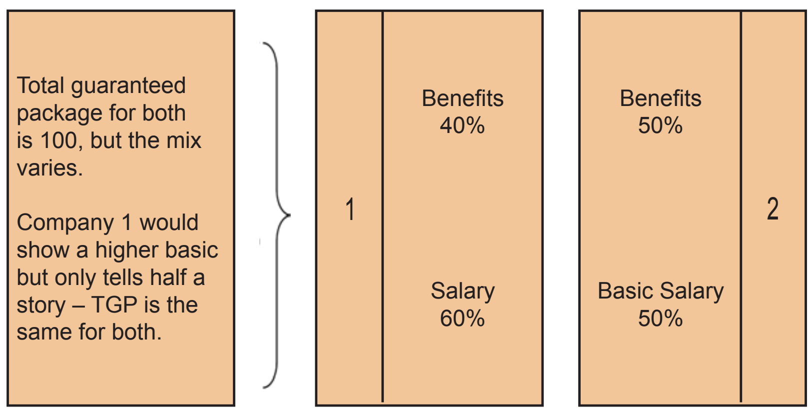
**In pictorial terms**

**Variable pay** is typically performance-related, and we recommend a separate comparison on these components, because they are influenced by whether the performance criteria were met.

**Total Guaranteed Package (TGP)** is the most reliable line item to compare on, as it includes all the guaranteed elements of pay, irrespective of the performance. It is possible that one company may contribute a bigger portion to retirement funding than another as an example, the TGP aligns, it is only the components that differ.

From a different angle, it can be misleading only to benchmark the cash portion of pay (basic salary), as you may be comparing one company (1) that offers no benefits in addition to cash to another company (2) that offers many benefits.

In this case, the first company reflects a high value for basic, but the total guaranteed package of the 2 companies may well align:




**Internationally, there are various remuneration definitions:**

It is very important to ask your company what they mean when they use the various definitions of pay as illustrated in the definitions above.

This will help you to make sure your apple is indeed being compared to another apple when looking at comparison remuneration levels in different companies and industries. It is also very important to use a reliable source of information for remuneration data. ■

| | |
|---|---|
| Total Guaranteed Package | - Fixed annual remuneration<br>- Total cost to company<br>- Total annual non-variable remuneration |
| Total Annual Remuneration | - Grand total package (includes all benefits) |
| Cash portion of pay plus short-term incentives (excluding benefits) | - Total cash<br>- Total annual cash compensation |
| Total Remuneration / Total Earnings | - Total direct compensation |

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# Tech is **forcing HR back** to its roots

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Fearmongers would have us believe that robots are going to put HR managers out on the streets. While AI and machine learning will certainly automate many repetitive HR tasks, there's one crucial HR function that robots have not yet gotten right.

But first, let's look at the areas that the machines have made an impact. Until now, the technology-in-HR conversation has been around how digital transformation can enable efficiency and boost productivity, by allowing HR practitioners to:

- Use social media to find and attract the right candidates and to better engage with employees;
- Offer mobile working arrangements to empower teams to work from anywhere, improving work-life balance and, therefore, job satisfaction;
- Leverage data analytics to reduce and automate administrative functions like leave and payroll; and
- Manage and facilitate all of the above using advanced cloud solutions.

Every business should be using these tools to inform their decisions and untether their teams from office desks. The real differentiator lies in data and analytics – and not just to better understand your customers.

**Doing less with more (data)**

Machine learning and artificial intelligence, which feed on as much data as possible, are driving the next evolution in human resources. Ironically, this evolution sees HR managers disengaging from technology to return to the core of why they exist: humans, people, connections.

Integrated databases can consolidate information from internal systems (e.g. leave, payroll and performance management systems), social media and external sources (e.g. salary surveys), to enable a level of HR automation never experienced before.

And tools like ZipRecruiter and LinkedIn Recruiter can scan CVs and professional networks to find the person with the exact skills and experience for any position.

All this has rescued HR managers from drowning under piles of CVs, leave applications, employee queries, training and performance reviews. This has freed up their time to do the one thing that machines can't: engage meaningfully and personally with teams and prospects. While machines can find the needle in the skills haystack, only humans can spot passion, grit and dissatisfaction among colleagues.

**Bring a horse to water**

Businesses have become obsessed with analysing data to understand what makes their individual customers tick and what influences their buying decisions. Yet, they should be putting this same energy – if not more – into understanding their teams.

McKinsey found that creating great customer experiences requires having an engaged and energised workforce who are appropriately motivated and rewarded. And the only way to know what motivates your teams and understand how they want to be rewarded is to regularly engage with them face-to-face, human-to-human.

Only by asking will you know that Sarah, a new mom, would choose flexible working hours over a monetary reward, so that she can juggle mom-life. And John, who likes to keep his work confined to the traditional 9 to 5 workday, would rather have the money as a deposit on a new car.

**Happiness Resources**

In future, the real value of HR will be in the ability to connect with people, to understand what motivates them in the workplace, and to nurture these values to drive your business forward. Technology can bring us to that point but it's up to us to decide what to do with that information once we have it.

Technology will never make HR managers redundant. Rather, it will make them better at their jobs. Better at not only finding the right person for the job, but also the right person for the company culture and values. ■

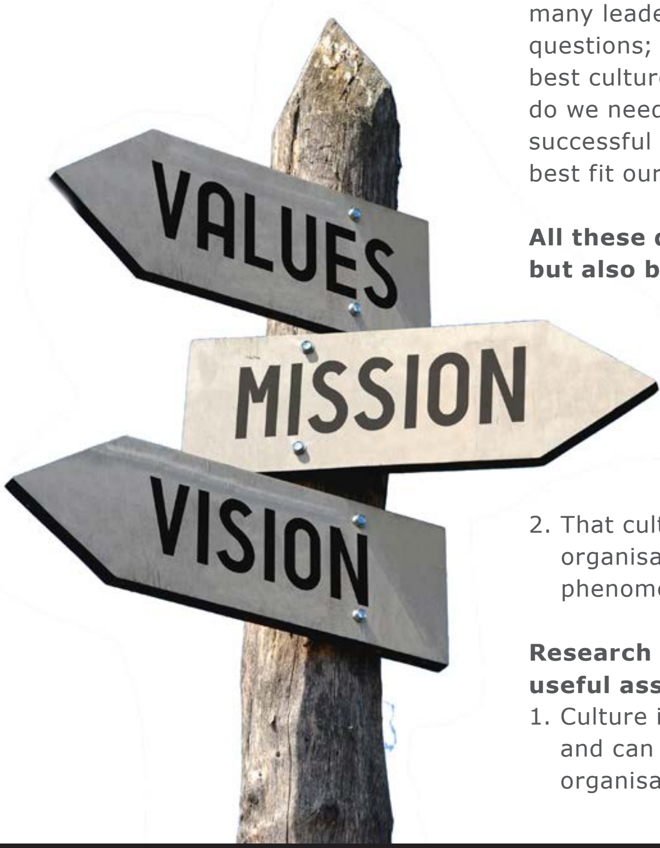
# A question of culture?

What evolution in your culture will serve you most? What aspects of your culture inhibit and enhance your performance?

Corporate culture can be nebulous and difficult to peg down. In the tech world, coffee machines and beanbags are expected to create and maintain culture. In the good old days being known by name and receiving personal service from the owner, were all part of corporate culture.

But culture is much more than a free lunch and wishing a client happy anniversary and has been the subject of many a boardroom debate of 'strategy vs culture'.

Culture eats strategy for breakfast!', a quip at many a boardroom table. It's said with such conviction, often as a precursor to a philosophy on leadership and the future. I have sat through countless meetings with senior executives who claim high expertise and command of the topic, and we all seem to nod and smile in anticipation of the great work we will do together.




And then I began reading, not Harvard Business Review or a clutch of online articles and trendy business magazines, but hard, empirical research; and I have been self-muzzled. I don't cough out that slogan anymore. I swallow back the one liners and MBA catch phrases and admit ignorance. But the more I read and learn, the more it makes organisational culture and the work within that space unexpectedly rich, diverse and certainly more complicated.

As an advertising executive shared with me recently; 'without strategy, culture is just a party and a fussball table'. Spot on, and also just laughing at the surface of the topic.

No matter the levels of ignorance, many leaders are asking the same questions; how do we create the best culture? What type of culture do we need? How do we implement successful culture change? Who will best fit our culture?

**All these questions are pertinent but also based on a handful of flawed and torpedo-like assumptions:**

1. That a culture can be changed, or deliberately created;
2. That culture is a singular, organisation-wide phenomena.

**Research offers more useful assumptions:**

1. Culture is always present and can vary across an organisation;
2. It is almost impossible to change,
3. We don't yet understand who or what influences its genesis over the life cycle of an organisation.

The rising interest in organisational culture has much to do with its association to a unique competitive advantage, and thus some form of enduring relevance.

**That is an important insight, and is based on the following, research backed findings:**

1. A culture's dimensions are difficult for competitors to imitate;
2. A culture possesses rare and unique qualities;
3. A culture is cumulative and generates upward momentum;
4. A culture's sources are interconnected to form part of a whole;
5. A culture can be renewed faster than eroded ■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# The right **formula for** IT skills **development**

South African organisations must find ingenious ways of addressing the skills gap while building an engaged workforce. Skills development may be considered one of the softer disciplines, but there's a hard need for it to be redressed so the organisation can benefit from its IT investment and ignite long term growth.

According to Dr Pali Lehohla, skilled employment fell from 25.5% in 2013 to 23.4% in 2016 and it's having a severe impact on job creation and the economy. Add these stats to the list of skills that are most in demand based on the ADvTECH survey – IT skills top the list globally – and the picture is painted. Skilled people are in demand and those businesses that build skilled reserves are those that have a significant advantage over competition and market.

**Seeing the gap**

In its simplest form, identifying the skills gap is a formula – these are the current skills, the future skills required, and within the difference lies the knowledge gap.

Organisations have been actively identifying this gap and implementing training programmes designed to address it for years, but they are often doomed to fail. Why? Because the business hasn't adapted in time or is unaware of the future skills its workforce needs. The programmes haven't been formalised or implemented in such a way as to engage employees and there's often no way to monitor and measure progress made throughout the programme.

**Part-time problem**

In addition, employees asked to undergo the training are balancing their full-time roles alongside the rigorous demands of the skills development programmes.They aren't mentored properly or provided with the time they need to focus on their training and development. Instead, they are often unware that the knowledge gap exists and they have to manage the rigours of learning and the deadlines of their jobs without understanding the impetus.

This is particularly true of those who work in IT. Technology is one of the greatest agents of change in the organisation. New tools, new enterprise resource programs (ERP), new software upgrades and installations – these all impact on the employee and their ability to do their jobs. For those who specialise in technology, the ebb and flow of innovation is invigorating and teams that have the right skills thrive. However, the moment a team member moves on to another role, they leave behind a void that few organisations know how to fill. Where is the skilled individual who can pick up where the other person left off? Who can be trained to rise into the space left behind?

These are some of the biggest challenges impacting on skills within the organisation today. And that impact on the success of training programmes without the right support or controls.

**Planning**

Addressing the knowledge gap within the organisation requires planning.

The business has to establish what it wants to achieve, where its weaknesses lie and how it plans to expand in the future. It may be a very simplistic way of looking at the problem, but it puts the business on the right path to skilled success. Formalising the structure behind it ensures that resources are identified, skills are assessed and needs unpacked.

Once the spaces between skills and need have been determined, it is time to strategically close them. There are two ways to do so - formal education and unstructured learning – do they need certified and structured education and/or do they need mentoring or job shadowing. One will require they spend time away from the office achieving an official certification while the other will be self-driven with support from courses or internal skill development programmes.

Both will take up time and need to be considered as an investment and the employee provided with the right space and support to achieve their goals.

Bridging the knowledge gap requires strategic planning, formalisation of the company strategy and outlook towards skills development, the identification of the challenges and holes that dominate the business, and targeted training and support that engages employees and retains talent. It's a focused formula that's designed to support business skills development over both the long and the short term. ■

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# Time to **take** the cyber **threat environment** seriously!

On a recent visit to BDO in Norway, it struck me that many South African-based businesses and organisations are increasingly exposed to cyber threats and vulnerabilities of which they are blissfully unaware.

There is no doubt that we currently find ourselves in an age where highly technical targeted cyber-attacks are the order of the day – and I don't think executives take this threat seriously enough.

We are experiencing the evolution of the threat landscape, from a relatively small number of signature-based viruses in the 90's, to a significantly larger number of advanced threats in the last 5 years. This is the result of intensive work by hackers in creating attacks that will go undetected by reactive, traditional AV (Anti-Virus) products. Traditional endpoint protection is only effective in protecting against known malware. It is not capable of dealing with attacks where exploits, file-less malware and other advanced technologies are used.

The question board members, CEOs, CFOs and COOs should be asking is not 'if' your company has been breached, or even 'when'? Having seen the level of sophistication associated with the attack vectors and methodologies, I have no doubt that most South African businesses must now accept that it has already happened to them.

The real issues which must now be addressed at board meetings deal with the capability of the business to timeously detect and deal with the inevitable attacks.

**Two key issues need to be considered when dealing with the current cyber threats:**

- Appropriate design and implementation of cyber defence systems
- The capability to detect and respond to IT security threats and breaches with appropriate levels of depth.

Through our strategic partnership with Panda Security, I have seen the new-generation technology developed as a direct response to advanced threats. Solutions like Panda's Adaptive Defence closes the detection gap and hardens protection to effectively stop ransomware, APTs and other sophisticated attack types. Adaptive Defence is an EDR (Endpoint Detection and Response) class technology with a differentiated approach involving the monitoring and classification of all running processes to deliver a 100% attestation service that ensures only trusted applications can execute.

> **"There is no doubt that we currently find ourselves in an age where highly technical targeted cyber-attacks are the order of the day..."**

Maintaining a cyber-resilient organisation requires a comprehensive cyber-security strategy that includes not only threat detection but allows for increased visibility and control by leveraging Threat Hunting technology.

The core feature of SOC / SIEM / CERT * technologies is the ability to gather security data from all of the critical assets residing on the businesses network and to present that data as actionable information via a single interface. This provides a vast array of benefits by allowing the security teams to gain a complete understanding of the IT assets' security status, prioritise security incidents, and demonstrate compliance with regulations much more efficiently.

Solutions, like Panda Adaptive Defense, help administrators filter the huge volumes of data handled by SIEM systems and focus on what really matters:

- What new programs are being run and are yet to be classified as goodware or malware?
- How did those programs reach the network?
- What suspicious activities are they performing on user devices?
- What legitimate software with known and exploitable vulnerabilities is being used?
- What processes are accessing user documents and sending information out?
- What is the network usage of each process run on the IT network?

My experience with South African company management has highlighted an extent of overconfidence associated with a lack of understanding of the current threats. It is interesting to examine the behaviour of a CEO delivering

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an address to the press following an attack and breach. The core issues are seldom addressed and CEOs often skirt around the issues.

The European Union took a step forward on 15 June 2018, in establishing a new bloc-wide cybersecurity agency and enacting a new certification framework that advocates say will create a food label-type standard promising a level of data security on products such as connected cars and smart medical devices.

At a meeting in Luxembourg, the European Commission's Telecommunications Council agreed on a 'general approach' to a proposed law that would establish an EU Cybersecurity Agency to help member states respond to cyber threats. The Cybersecurity Act would also create a process for connected devices EU-wide to obtain safety certifications similar to food labels. The meeting paved the way for the law to be finalised by the end of 2018 after negotiations with the European Parliament, the commission said.

The new cybersecurity agency, revealed by European Commission President Jean-Claude Juncker in his annual State of the Union Address in September 2017, would be established out of the existing European Agency for Network and Information Security (ENISA). The agency plans to organise annual EU-wide cybersecurity exercises and put in place channels to share information on cyber threats throughout the EU.

As threats continue to evolve, so too must the processes around leading technologies in order to provide a business-focused SIEM SOC Managed mitigation service that will evolve with an organisation's needs and the constantly changing cyber threat landscape.

It is time for South African executives and government officials to follow the example of the EU in strengthening South African businesses' and government's cybersecurity. ■

** SOC – Security Operations Centre*
** SIEM – Security Information and Event Management*
** CERT – Computer Emergency Response Team*

# The ever-evolving **mobility challenge**

**Technology continues to evolve at a rapid pace, transforming the way people work. The ongoing rise of mobile working is one of the most notable results of how this trend is impacting the professional world, with the number of mobile workers predicted to climb from 1.45 billion in 2016 to 1.87 billion by 2022 – accounting for 42.5 per cent of the global workforce.**

Given the widespread scale of, and numerous benefits to, mobile working, the majority of organisations already have a mobility strategy in place. An EY study found that over 50 per cent of companies are tuned into mobile working to the extent that their mobile strategy is implemented every day. Yet the fast-paced nature of technological innovation, coupled with rapid data explosion driven by the Internet of Things (IoT), mean that such strategies constantly need to be reviewed and refreshed to meet the latest demands.

**Relentless security threats**

The exposure of working remotely, coupled with the value attached to the ever-multiplying swathes of data which are so integral to business operations today, is creating greater opportunities for cyber criminals than ever before. The more data available to mine and the more entry points there are providing access to the network, the bigger the risk.

This makes data security a major priority for IT leaders in 2018 – even more so with GDPR only a matter of months away – and a major part of this is ensuring mobile workers are secure, no matter where they are. 55 per cent of European organisations plan to implement a data loss prevention initiative this year, giving rise to a number of new solutions including mobile zero clients.

Such tools help to nullify the device-level threat by withdrawing data from it, instead enabling employees to access sensitive information held more securely under central storage and management. Solutions like these, which can future-proof the IT infrastructure at a time when everything around it is moving at breakneck speed, can prove invaluable to a 2018 mobility strategy.

The edge and data proliferation

While security may be the most pressing IT and mobility-related concern for organisations right now, ensuring efficient and productive working while on the move is also becoming increasingly difficult – with data proliferation once again at the core of this problem. Cloud solutions to date have served organisations well as a scalable and cost-effective method of managing business-sensitive data but, while the importance of the cloud won't change, the way in which it is used may well do.

The impending arrival of 5G is set to instigate a further boom in the IoT, meaning this ongoing data rush of unprecedented levels is certain to continue. In order to relieve the strain this data will place on cloud services, a growing number of organisations are integrating an edge-focused element to their mobility infrastructure. A report from BI Intelligence demonstrates this incline, estimating that 5.6 billion business-owned devices will be utilising edge computing for data collection and processing by 2020. By processing data at the edge of the network, businesses will be able to benefit from a reduced data overload and improved service quality.

Paving the way for wearables

As edge computing develops, so too will the solutions used to collect and manage this data. Global wearable device shipments will rise to 154 million in the enterprise by 2021, according to ABI Research, as various sectors including logistics, manufacturing, warehousing and healthcare, are recognising how they can utilise such technology to enhance mobile productivity, as well as build new capabilities and competencies.

This includes the adoption of long-mooted solutions such as Assisted Reality (AR) smart glasses, which can be used in the field to provide remote expertise to engineers repairing faulty machines, or, in healthcare, to record patient information in real-time during an examination.

While the vast majority of organisations have already embraced mobile working, how this looks from one business to the next varies significantly. What is common throughout the professional world is that an effective and secure mobility strategy is essential to ensuring organisations can compete and be successful in their sector, meeting the expectations of customers, partners and employees. Yet building, managing and maintaining this strategy is more complex now than ever before, from choosing trusted devices to integrating bespoke security solutions at a network level. In order to achieve this, IT leaders must constantly assess their architecture and integrate the right solutions to ensure security, productivity and mobility in equal measure. ■

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# **Emerging technology** adoption enables fast fish

Klaus Schwab, founder and executive chairman of the World Economic Forum pointed out that in this new world, it isn't the big fish that eats the small fish, but the fast fish that 'eats' the slow fish. In my view this is because the fast fish starves out the slow fish by getting to the food faster!

Most organisations spend 80 percent of their IT budgets 'keeping the lights on', and the business leaders I engage with admit this isn't a good ratio, the reality is that they are finding it difficult to evolve at the same pace as innovative technologies emerge.

Their conundrum is that providing better customer service, responding faster, and being innovative have become essential for growth in the hyper-connected era. Decision-makers will need to embrace this change with an accelerated roadmap if they are to remain relevant in 2018.

While the technology that organisations are using might change, the fundamentals remain... Whether it is moving to a monolithic outdated system, or a modern cloud-based one, the purpose is to help drive new business value. What has changed however, is that the conversation is now about unlocking exponential growth - made possible through applying emerging technologies for specific business opportunities or challenges.

With cloud computing, businesses can enhance existing processes by using amongst others artificial intelligence (AI), machine learning, or even sensory input from the Internet of Things (IoT). By applying such emerging technologies, companies can keep direct and indirect costs in check, while focusing on returning more strategic business value.
Emerging technologies are changing business

AI: Artificial Intelligence is already all around us; it underpins the digital assistants on our smartphones and devices, it helps digital marketers reach the right audiences, informs medical diagnoses, drives high-frequency trading, helps HR specialists sift through CVs, besides also improving a wide variety of other processes.

IoT: A growing trend is for organisations to create digital twins of their assets, with IoT - on machinery, for example - providing real-time data, to proactively repair and plan for equipment service, plan manufacturing processes, operate factories, predict equipment failure, increase operational efficiency, and perform enhanced product development.

Blockchain: The potential exists for businesses to drive new value through harnessing the opportunities being made available through blockchain technology, including reducing transaction costs, helping eliminate fraud risk, improving regulatory compliance and even enabling new business models through functions such as smart contracts that can automate many transactional processes.

Intelligent bots: Today's chatbots mostly have a human agent integration component for handling urgent or time sensitive cases. Going forward, the use of AI robotic process automation (RPA) will enable bots to apply sentiment analysis, while the integrated RPA technology will allow for the ability to initiate processes that are needed to resolve the issue without human intervention.

**Cloud computing unlocks growth opportunities**
Technology is no longer just the responsibility of the IT department.
Today, CEOs and CFOs realise that technology is a powerful enabler and component of their business growth strategy.

However, back-office systems have remained largely unchanged through this technology revolution and this is where companies will have to embrace modern business practices, processes and solutions if they are to unlock new growth.

In the past, migrating from one legacy back-office solution to another yielded marginal benefit, as the functionality and customer experience was similar, with almost the same cost structure.

**Today, it is an entirely different scenario.**
A modern ERP cloud solution is continuously enhanced – processes and user experiences are improved, and emerging technologies such as AI, IoT, Blockchain and Intelligent Bots are applied to improve processes and decision making as well as customer and user experience.

Adopting modern business practices and harnessing emerging technologies doesn't only result in improved operational efficiency for organisations, it allows them to provide their internal and external customers with access to continuous innovation and a constantly improving user and customer experience.

In an era where it is not the size of the fish that matters, but its speed, using cloud-based solutions gives companies the agility they need to identify and capitalise on new opportunities. ■

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# **Unlocking** African rail

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Giving third-party operators access to Africa's rail infrastructure could revitalise the continent's rail industry and drive a broad raft of economic benefits.

Third-party access will see additional trainsets introduced to existing infrastructure - and managed correctly, this will be a catalyst for growth and development by creating a more competitive logistics offering for the countries concerned.

**Revenue opportunity**

In the rail industry, fixed costs make up the highest proportion of total costs, which means railways need large volumes to survive. It costs relatively little to grant third party operators access, but the potential revenues created by access fees – and the material revenue flows that can be generated by third-party operations – are significant.

Currently, state-owned rail companies commonly own both the infrastructure (the permanent railway) and the assets that operate on this infrastructure (the locomotives and rolling stock).

Where there is a shortage of trainsets, a capital shortage to invest in these trainsets, or no investment appetite for a particular cargo, this infrastructure remains underutilised, resulting in lost revenue opportunities.

**Road competition**

This limited access to the continent's rail infrastructure is one of the reasons that most goods in Africa today are trucked by road.

There's no doubt that road transport has an unfair advantage. In most cases, the superstructure is heavily state-subsidised, and the fact that the road network is more developed allows trucks to run door-to-door. On top of this, the road transport industry has relatively low barriers to entry and uses highly versatile and fundable assets.

The low barriers to entry in the road transport industry means road quickly adjusts to meet industry demand. By contrast, the high barriers to entry in the rail industry, including the high capital cost of additional trainsets, means rail capacity generally lags industry demand in Africa.

> **"...it will take a collaborative effort by all stakeholders, with a shared vision..."**

**Break the monopoly**

To unlock the current rail infrastructure, investors and private operators will need greater regulatory stability, user-friendly access agreement regimes and clear safety regulations.

There is widespread precedent for this kind of approach across the world, and in some pockets in Africa. However, it will take a collaborative effort by all stakeholders, with a shared vision of a thriving African rail industry that can contribute to the continent's economic wellbeing.

Across the developed world, industries and entire economies rely on rail to move vast volumes of goods efficiently and cost-effectively. In recent years, we've seen significant investment in Africa's rail infrastructure in an effort to tap into rail's ability to unlock huge growth potential.

But if we're going to create the flourishing rail industry this continent needs, we as an industry have to find ways of making our industry more relevant. ■

# **Mitigating** third-party **risk**

Today's organisations very rarely exist in a vacuum. Companies depend on a multitude of third parties in order to achieve core business functions and may include vendors, contract manufacturers, traditional suppliers, agents, distributors, technology providers, franchisees and more.

As dependence on outside parties increase, so too do the challenges involved in building processes to effectively manage and mitigate the potential risks involved in these relationships.

As your company is responsible for the actions of your partners, the onus is on you to be in the best possible position to survive the disruptions that result when third-party risks manifest.

The action –or inaction – of a third party could have dire consequences for your business. Your company could experience backlash from a third party's inferior-quality service, data breaches resulting from a third party's inadequate security practices, or supply chain issues as a result of a partner's poor contingency planning.

Further to this, supply chains exist as an ecosystem, with multiple tiers of partners that serve a manufacturer's own vendors.

The more complicated the supply web, the more challenging it is to identify and manage imminent risks.

Potential third-party risks include regulatory and legal violations, reputation damage, information security breaches and financial volatility.

In order to effectively manage third-party risk, one should follow the guidelines set out by The Office of the Comptroller of the Currency (OCC) for assessing and managing Third Party risk.

**Organisations should perform the following throughout the life cycle of the relationship as part of its risk management process:**

**1. Oversight and Accountability**
Assigning clear roles and responsibilities for managing third-party relationships and integrating the organization's third-party risk management process with its enterprise risk management framework enables continuous oversight and accountability.

**2. Documentation and Reporting**
Proper documentation and reporting facilitates oversight, accountability, monitoring, and risk management associated with third-party relationships.

**3. Independent Reviews**
Conducting periodic independent reviews of the risk management process enables management to assess whether the process aligns with the organisation's strategy and effectively manages risk posed by third-party relationships. ■

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# Lighting the **productivity switch**

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There are certain factors that everyone knows affect workplace productivity, but lighting is one important item often overlooked by most employers the world over.

An employer's choice of lighting can have a significant impact on the productivity of a company.

A study conducted by the American Society of Interior Design for example indicated that 68% of employees complain about the lighting situation in their offices. The fact that such a substantial number of employees disliked the lighting implies that many employers could be making the same mistakes.

Light has an enormous effect on our physical and mental well-being. It's in our DNA to perform better under specific lighting, and that's why we react differently depending on our light environment.

One of the most striking factors influencing how we work is called the colour temperature of the light source we're exposed to on a regular basis.

**So what is colour temperature?**
Higher colour temperatures appear blue-white and are called cool or daylight colours. Mid-range colour temperatures appear cool white while lower colour temperatures range from red to yellowish-white in tone and are called warm colours.

**For a better idea, these are some examples of what these colour temperatures look like in everyday life:**
- The glow from the fire lighting is considered a warm colour.
- A sunset is considered a cool white colour.
- A typical sunny day is considered a cool colour.
- An overcast winter day is measured is considered a very cool colour.

**What colour temperature lighting is best at work?**
Cooler light makes workers more productive.

A number of studies (Cheung & Zee in the Journal of Sleep Medicine as one stand out example) have found sunlight can have a multitude of benefits on our health.

Exposure to natural light is especially beneficial to workers that are cooped up in an office all day. Natural light from both the morning and evening has been found to decrease depression and as a result of these findings we often advise clients to bring down drywalls and use an extensive amount of glass in the offices they design. With this strategy, light is able to travel and disperse throughout the office space.

**Tailoring lighting throughout the office**

If you don't have access to daylight, studies have also found that working under 'blue-enriched' light bulbs actually increases work performance by supporting mental acuity, vitality and alertness while reducing fatigue and daytime sleepiness.

Researchers at the University of Greenwich found in a two-month study that the workers they put under 'blue-enriched light bulbs' reported feeling 'happier, more alert and had less eye strain'.

Other benefits of blue light include lowering melatonin, which is created in our glands and basically puts us to sleep. This lower level of melatonin keeps people alert in the same way coffee does. With so many brainpower benefits, blue or cooler light should be kept in brainstorming rooms.

On the other hand, since warmer tones tend to create a sense of comfort, it makes this kind of lighting in more intimate settings where you want workers to feel calm and relaxed, perhaps in a meeting room where you want to emit trust.

Conference rooms should have middle tones that produce a friendly and inviting environment, but also cool enough tones to keep workers alert and motivated.

Throughout the day, light also needs to change since space acts like a working organism; lighting in the office should be cooler and blue and should gradually change to a warmer, yellow colour as the day progresses.

**Programmable lighting—the next big thing?**

The most innovative companies are already discovering the power of strategic lighting.

In the next couple of years you're going to see major changes in lighting technology in companies. More and more companies will have programmable lighting that will be able to be changed as one desires. ■

# ISO 14001 – **Environmental Management** System

**PART 4 OF A 4-PART SERIES**

In a world of rising costs of resources and growing public awareness of the environment, an effective Environment Management System (EMS) can give companies a significant competitive advantage.

ISO 14001 certification will ensure that your business focuses on its environmental impact, supported by effective management processes.

14001 is the standard that covers the design and implementation of an Environmental Management System.

This is a framework designed to measure and improve the way natural resources are used and disposed of by an organisation.

It is a generic standard which means it is applicable to organisations of all shapes and sizes. In some industries, such as construction or manufacturing, the business benefits are very clear – greater resource efficiency and waste management means lower costs.

A well designed and implemented environmental management system should address the delicate balance between maintaining profitability and reducing environmental impact.

**Some of the benefits include:**

- Streamlining environmental processes, reducing waste and the carbon footprint of your business.
- Reducing tax, energy and insurance bills, lowering operating costs.
- Reducing the risk of prosecution due to environmental breaches or failure to comply with the law and the associated bad PR.
- Providing your business with the credentials to satisfy growing market demand and open up global business opportunities with a recognised mark of environmental efficiency.
- Giving clients and those in your supply chain absolute confidence that your business will add value and support them in their own environmental policies.

Perhaps the most important element of ISO 14001 however, is that it is not a one-off exercise, with regular reviews keeping the environment at the heart of the corporate culture.

In a world where environmental impact is of growing importance, an environmental management system can keep you ahead of your competition. ■

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**If you're looking for ERP your way, on your terms, let's discuss the infinite possibilities of SYSPRO ERP. If you'd like to know more, please contact us on 011 461 1000 or info@za.syspro.com**

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