ADDRESSING CORPORATE CORRUPTION IN SOUTH AFRICA

The EOH Experience

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SECTION 1
Introduction*

South Africa's judicial commission of inquiry into state capture was initiated following a report by the then-Public Protector, Thuli Madonsela, in October 2016 regarding improper conduct by then-President Jacob Zuma and other members of the executive and by members of the Gupta family during Zuma's presidency since September 5 2009, regarding the appointment of officials and the awarding of government contracts via the system of public procurement. Zuma failed in a court action to set aside Madonsela's report, and in January 2018 at the instruction of the court, he appointed Raymond Zondo, then the Deputy Chief Justice of South Africa, to lead the commission. Zuma resigned his office on February 14 2018. The Zondo commission started work in August 2018, completed its evidence in August 2021 and published its six-part report between January and June 2022.

State capture inflicts serious damage on growth in the wider economy, over and above the direct loss of public funds, through its corrosive effect on public institutions, resulting in damage to domestic and international investor confidence and to the effective delivery of key public services, particularly transport and energy. Chapter 4 of the first Zondo report (RSA 2022a)[1] identified a set of examples from those presented by witnesses, to typify the different types of abuse carried out at each stage of the public procurement cycle. Six different private sector entities were identified (see paragraph 458) as involved in these examples - they included two companies related to the Gupta family, a Chinese multinational company supplying rail equipment, the South African branches of McKinsey and Bain, two large international consultancies, and finally, EOH[2], a major South African ICT company listed on the Johannesburg Stock Exchange (JSE).

EOH's relationship with the City of Johannesburg was laid out in substantial depth in the Commission's fourth report, where it started with the observation that:

> "EOH is a unique case. Alone among all the companies that have been mentioned in the proceedings of the Commission, EOH proactively approached the Commission to be given the opportunity to disclose publicly what wrongdoing had taken place historically within its ranks. It sought also to explain what it has already done, and what it proposes to do, to make reparation for such wrongdoing and to prevent similar wrongdoing occurring within its ranks in the future. EOH's attitude towards the Commission is illustrative of the attitude that it has taken to regulatory and law enforcement authorities more generally" (RSA, 2022b, para 242-3).

This paper examines EOH as a case study of corporate corruption. It starts from the idea that corporate corruption has similarly damaging effects on an economy as state capture, especially on investor confidence. South Africa is a useful arena to examine this, given its substantial corporate business class. The JSE is a major global stock exchange established in the late 19th century, with about 470 listed equities currently. Several are dual-listed on other exchanges, mainly in Europe, and around two-thirds are multinationals operating across sub-Saharan Africa and other regions. In recent years, some JSE-listed corporations have been involved in corruption (if not state capture), such as Steinhoff and Tongaat Hulett.[3]

* The work on which this paper is based was done for a project on "Addressing corporate corruption in South Africa" by a team comprising Stephen Gelb from ODI, a global think tank; David Lewis, Melusi Ncala and Tawanda Kaseke from Corruption Watch South Africa; and Gugu Mclaren-Ushewokunze, Thuthula Ndunge and Bridgette Mdangayi from the National Business Initiative in South Africa. Though the rest of the team contributed significantly to the fieldwork and provided substantial comments on drafts of the paper, Stephen Gelb is solely responsible for its contents. Contact: s.gelb@odi.org.uk.

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We are very grateful to Stephen van Coller and Fatima Newman at EOH for their help in allowing us access to EOH, and we thank them and other EOH employees and board members for speaking to us. The work was fully independent of EOH.

1 The Zondo Commission, including all its evidence and reports, is at www.statecapture.org.za.

2 See www.eoh.co.za.

3 On Steinhoff, which led to an estimated €6 billion loss, to investors across South Africa and Europe, including many pension funds see Rose, 2018. And on Tongaat, see Rob Rose, 2023, Why Tongaat Hulett really is too big to fail, Financial Mail, April 6 2023 https://www.businesslive.co.za/fm/opinion/editors-note/2023-04-06-rob-rose-why-tongaat-hulett-really-is-too-big-to-fail/.

PwC's annual Global Economic Crime Survey (GECS) shows that South African business leaders accept corruption as part of the 'cost of doing business' in the country and may be an important feature of organisational culture in many South African corporations. The seventh GECS report for South Africa was released in early March 2020.[4] In 2016 and 2018, South Africa had led the world in terms of respondents who had experienced economic crime in the preceding 24 months: 69% and 77% respectively. In 2020, South Africa's share dropped to 60%, still well above the global average of 47%, and South Africa was third behind India and China. The 2020 South Africa GECS showed that 34% of respondents reported senior management as the major perpetrator of fraud, and of all fraud incidents, more than two fifths (42%) were not investigated after discovery, around three fifths (59%) were not disclosed to the corporate board, two-thirds (66%) were not disclosed to regulators or law enforcement authorities, and almost three quarters (72%) were not disclosed to auditors. These shocking percentages, on both the level of senior executive crime and on the lack of reporting and investigation, provide further significant motivation for this paper.

The Zondo Commission did not look deeply into the reasons for corporations like EOH becoming corrupt – its focus was on public sector entities rather than private sector. Our analysis here shows that while there is no doubt that the wider context of 'state capture' in South Africa after 2009 was very important for corruption at EOH, the corporation's problems preceded the 'state capture' period, and extended well beyond EOH's direct engagement with the state. After wider problems began to come to light from late 2017, the board was forced by key shareholders in mid-2018 to appoint a new chief executive, Stephen van Coller. He turned out to have a very different approach to corruption than his predecessors at EOH. We examine the different threads of corruption inside the corporation, and the efforts by van Coller and his team to move the company in a new direction.

This paper draws on a number of sources. These include one-on-one interviews with 12 current executives including Stephen van Coller, and two current board members. We also carried out 12 focus group discussions with larger groups of staff, involving a total of 82 current EOH employees. Five of the focus groups were organised to include only women. In addition, we used a wide array of documentary evidence, including the company's annual reports for the years 2001 to 2022, the company's other public statements and presentations since 2001, and a news-clipping file compiled by the project and drawing on a wide array of publications, containing around 320 news reports mainly from 2010 to the present. We were also given 17 internal documents as confidential background material. We do not provide the names of individuals from the company interviewed or who were part of focus groups, but wherever possible, we have tried to provide public sources for factual information mentioned.

Section 2 of the study lays out our theoretical framework for analysing corporate corruption, arguing for a case study approach based on the nature of corporations as social organisations. Section 3 looks at the background of EOH as a prelude to analysing the various streams of corruption in the organisation in Section 4. Section 5 examines the role of informal networks in the corruption within the organisation. Section 6 analyses the different aspects of the anti-corruption actions implemented by Stephen van Coller and his team, while Section 7 concludes, looking at lessons from EOH's experience for corporate oversight in South Africa.

4 The 2020 GECS included 245 respondents (2016: 232; 2018: 282), of which 71% were in the 'C-suite' (2016: 47%; 2018: 55%). It gives a broad view of business executives' experience of corruption within their own organisations, of mechanisms to address it, of their perceptions of its wider impact and their future expectations. GECS collects voluntary anonymous responses from individuals employed by corporates with the questionnaire being circulated by chambers of commerce and business associations, as well as PwC. Questions vary somewhat for each iteration, so comparability over time is provisional. See https://www.pwc.co.za/en/publications/global-economic-crime-survey.html

SECTION 2

Power and corruption in the corporation – rules, networks and culture

We start with a specific understanding of the corporation as a social organisation which differs from both smaller enterprises and public sector enterprises, in its size and overall economic impact, and its structure and behaviour, including the external environment which regulates and impacts the latter. These features potentially offer a much wider range of opportunities for corruption and of greater financial value, than might be available to small or medium-sized businesses. A corporation is a large, geographically decentralised, and multi-divisional organisation with many employees, a substantial cadre of senior executives and mid-level managers who have some autonomy of action within the organisation, and a board including both independent and non-independent directors. Corporations are often also multinationals operating in many different national jurisdictions. Corporate equity is generally publicly traded on a stock exchange which exposes them to greater public scrutiny in the media and by institutional actors in the capital market, including the market regulator, securities trading firms and major investor funds.[5]

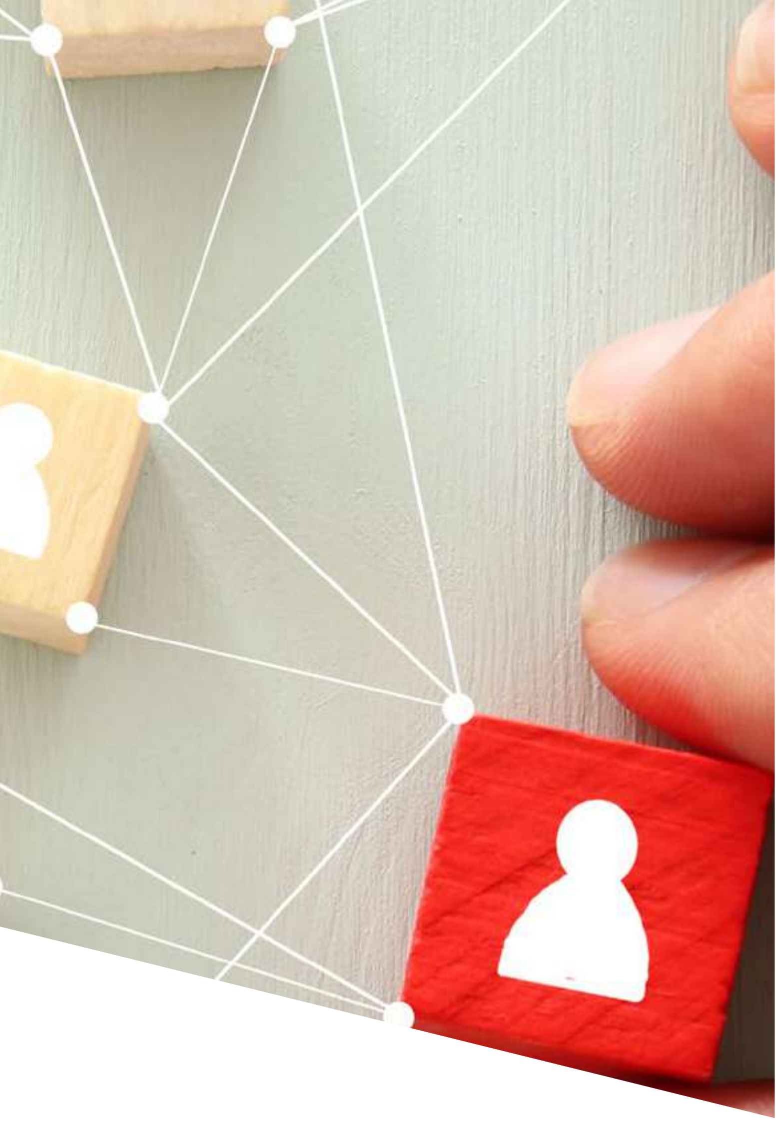
If we understand corruption as the abuse of power for private gain, then we need to consider the nature and sources of power within the corporation. The features of corporations which distinguish them from smaller businesses make the *social agency* of the corporation and, relatedly, the exercise of power within it, more complex than in smaller businesses. In other words, actions by smaller businesses, both internally and externally, can be more easily understood as personalised, reflecting the choices and decisions of the owner, because power within the business is highly concentrated in the person of the owner, so that he or she can directly determine the business' actions.

A large corporation is different in this respect, and power and its exercise within the corporation is much more complex. As Erica Schoenberger (1997, p 116) puts it, "a corporation is both a collection of individuals and a self-reproducing institution whose identity is linked with but not the same as those of the people who work within it. … There are great difficulties in sorting out the relationship of the part to the whole. The analysis must remain sensitive to these difficulties without trying to impose misleadingly clear boundaries between the categories of person, culture and firm."

We would add that between the individuals within it and the institution as a whole, there are groups of people, which are of two types. There are firstly the formal networks resting on organisational units and structures, whose interactions depend on formal rules – hierarchies, systems and control mechanisms – and which enable the corporation to act as a unitary agent. A key structure is the formal executive authority resting on the CEO, with power formally decentralised from him or her to other executive managers through written delegations of authority. This gives (some) individuals within the corporation (some) control over its human, material and financial resources, so that the corporation can engage in its various activities of buying, making, selling, borrowing and so on.

But the second type of group makes the distribution of power in the corporation even more complex, because this comprises informal networks and groupings of employees which do not correspond to the formal structure but reflect relationships and links which may criss-cross the formal structure as they emerge from day-to-day activities. Informal networks and groupings exert power in the corporation by bringing together people with some formal delegated authority and influencing their attitudes and behaviour, including towards their subordinates within the formal decentralised structures. Informal networks are essential for the corporation's functioning to achieve its legitimate purposes, for example by addressing technical problems, enhancing legitimacy, or transmitting information, including unofficial information and feedback up or down the hierarchy (Krackhardt and Hanson, 1993; Bryan et al., 2007). But some networks and groups may pursue different, less constructive, purposes, including blocking organisational change or engaging in corruption (Ashforth and Vinand, 2003; Lange, 2008).

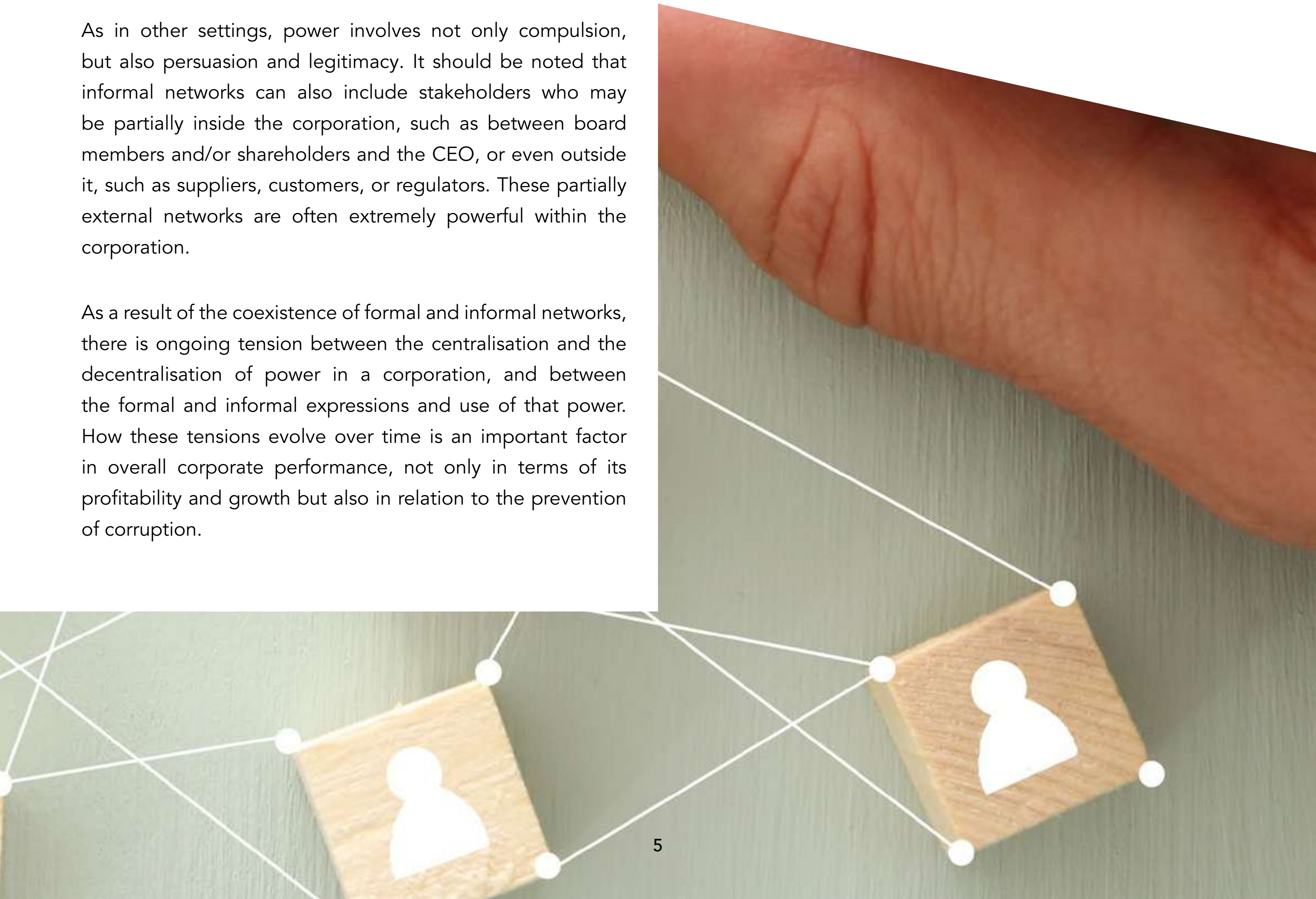
[5] But even when the corporation is unlisted, its size and social purpose will often make it subject to public interest.



A crucial role in managing these tensions is played by corporate culture, which is commonly understood as conventions – norms, standards and customs – reflecting shared values, meanings and assumptions amongst the corporation's employees and other stakeholders. But here we take a different approach, following Schoenberger in seeing this characterisation of corporate culture as not so much wrong as incomplete, because it overlooks the ways in which culture is closely linked to power. She argues that corporate culture is not (and cannot be) simply imposed by the executive, and nor is it static. Rather, the cultural change process "is power-laden and conflictual…structured yet indeterminate, both path-dependent and potentially path-breaking … what is at stake is the power to define a social order – the firm – and its relationship to its environment, so cultural change inevitably involves a struggle over power…and over identity, *over who and what the firm is*." (Schoenberger, 1997, 122, emphasis added) In this struggle, power shapes culture through the interplay between the two faces of power, as formal delegated authority and as informal influence through unofficial groups and networks, with many people of course having both formal authority and informal influence.

As in other settings, power involves not only compulsion, but also persuasion and legitimacy. It should be noted that informal networks can also include stakeholders who may be partially inside the corporation, such as between board members and/or shareholders and the CEO, or even outside it, such as suppliers, customers, or regulators. These partially external networks are often extremely powerful within the corporation.

As a result of the coexistence of formal and informal networks, there is ongoing tension between the centralisation and the decentralisation of power in a corporation, and between the formal and informal expressions and use of that power. How these tensions evolve over time is an important factor in overall corporate performance, not only in terms of its profitability and growth but also in relation to the prevention of corruption.



It is also important to recognise that the corporate culture of a firm, and the power within the firm which shapes it, is in part shaped by the wider social power of different groups beyond the corporation, as determined by class, race and gender. This is very important for South African corporations, though it is important in corporations everywhere. These factors as well as professional and technical differences help to shape different subcultures within corporations, so that corporate culture does not take a single form, but as Schoenberger points out, "we must still recognize the existence of a dominant culture produced by …. top management which establishes the social reality in which subcultures…emerge" (1997, p 121).

We turn now to corporate corruption, where we argue that an explicit consideration of how power is exercised within the corporation leads to a change in the standard approach to the prevention of corporate corruption. The latter emphasises three elements. The first is the enforcement of formal rules and controls inside the corporation, such as authorisation ceilings on expenditures, pre-action review and sign-off by higher-level managers of their subordinates' actions, and controls over access to information and funds. These are overseen by internal audit departments to enable detection of offences, supported by the threat of disciplinary action, and supplemented in some cases by a whistle-blowing mechanism. This formal system rests on the effective authority of the CEO. The second element in anti-corruption strategy is training in compliance of employees, and sometimes other stakeholders such as board members, suppliers and customers, to ensure they conform with the rules.

The third element is transparency of corporate performance through its financial results, and increasingly also its impact on environmental, social and governance (ESG) dimensions, which shape the corporation's ability to access finance in the capital market. By publishing its financial statements, annual reports and other statements about the corporation's activities and performance across all dimensions, the board of directors, and the external auditors who verify the financial statements, are crucial linking agents between the corporation's – that is, the executive management's – accountability to key external stakeholders in the wider society: the providers of capital (shareholders, lenders), governmental authorities (including the tax authorities and police), and a more general 'public interest'.

The business media and capital market organisations – banks and equity trading firms, as well as their market regulators – have a crucial role in helping to sustain corporate transparency, through their analysis of corporate performance. Because of their linking role, there is usually a statutory requirement for some board members of listed corporations to be independent, that is, neither part of the executive nor significant shareholders, as should be the external auditor.

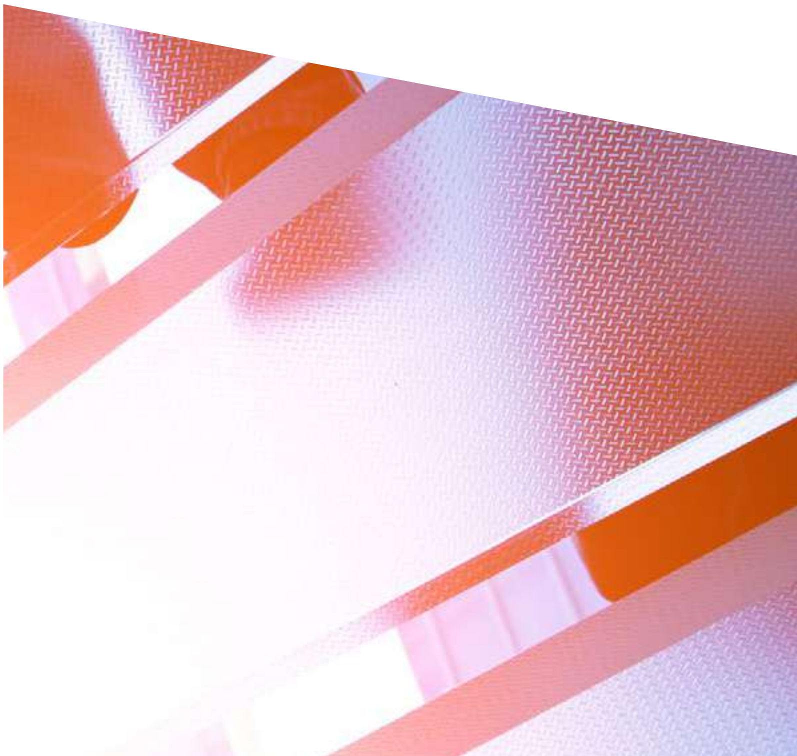
The standard approach to ending corruption is a 'top-down' strategy resting on the rule of law, understood as the detection and punishment of violations by effective enforcement agencies. As this account underlines, the 'top-down' approach covers both internal corporate processes – its own systems and control mechanisms – and its external environment, resting heavily on policies, rules and standards for corporate transparency and accountability, and the capabilities of the agencies and communities which monitor and enforce these rules and standards.

But we argue here that the top-down approach is necessary but not sufficient, because rules can be circumvented and the proceeds of corruption can be concealed, for example through falsified documents (as is common in 'transfer pricing') or through the actions of outside collaborators (such as external auditors as appears to have happened with Steinhoff) or through fragmented approval processes. In these and other ways, it is possible to evade both internal and external scrutiny, allowing corruption to take place *within* the existing formal rules in some way. These corrupt activities involve not individuals acting alone, but rather informal groups of people inside the corporation acting in consort. These groups have power within the corporation, and they necessarily include some people with formal authority, enabling the group to get hold of a stream of expenditure, revenue or finance, and to shape or evade the rules and escape scrutiny.

Anti-corruption strategy needs to analyse the power of these groups – how they are established, how they mobilise their members, and how they exercise power over, and direct the behaviour of, others inside the corporation. Essential to this analysis is understanding how the use of power in this way is enabled, and often rationalised, in terms of the corporate culture. In other words, the top-down approach – the enforcement of formal rules – to anti-corruption has to be complemented by a bottom-up strategy, to understand how informal networks have impacted upon the content and the enforcement of the formal rules and the role of corporate culture in enabling different types of corruption (Hess and Ford, 2008). This will then provide insights on shifting the distribution of power within the corporation to restrict the corrupt behaviour.

It is worth noting that the role of the CEO is crucial in the anti-corruption strategy because the CEO must lead *both* the top-down *and* the bottom-up parts of the strategy. Formal authority in the organisation resides in the CEO who has the capacity to change the formal rules. And using his or her formal authority, the CEO can also reconfigure the power of informal groupings, altering or even eliminating the latter's access to formal corporate authority, by shifting people into different locations in the formal hierarchy or by firing people from the corporation. Formal authority also enables the CEO to take the lead on transforming the corporate culture through (re-) defining norms, standards and values, that is, trying to change the identity of the corporation. But as noted above, power is not identical with formal authority alone, and corporate culture is not changed simply by fiat: these are conflictual processes and take time, during which the corporation must continue to operate and be profitable if it is to survive. As we will see with EOH, the corporation itself and its former CEO were implicated in corruption, so that changing the CEO was a crucial step, but only a first step.

Lastly, we need to justify our use of a case study approach. Taking account of both top-down and bottom-up approaches to corporate power underlines the heterogeneity of corporations as social organisations. How power is organised and used, for good or for ill, differs significantly from one corporation to another, notwithstanding that they are often treated in social science theory as homogeneous 'representative agents'. Analysis of how and why corruption has happened in a corporation needs to be context-specific, examining the features of that particular corporation, its culture, its informal networks, and its place in its external environment, because anti-corruption strategies for that corporation need to be 'customised' to address its particular characteristics. But in looking in great detail at a single corporation, we provide a general guiding framework for looking at other corporations.



SECTION 3

The EOH story – a summary up to 2019

This section provides a brief overview of EOH and the background to corruption within it, before we go on in the next section to discuss in detail the different corruption processes at work inside the corporation in the subsequent two sections. EOH (originally Enterprise Outsourcing Holdings) is one of the largest IT companies in South Africa, founded in 1995 by Asher Bohbot, an Israeli industrial engineer who had emigrated to SA in 1980, and listed on the Johannesburg Stock Exchange (JSE) in 1998. EOH has a central role in the country's IT and wider infrastructure systems, as a very large number of large public and private entities which are themselves major service providers in energy, water, transport communications and finance themselves rely on EOH services. For example, the CIO of one major bank indicated that it would take three years for the bank to replace EOH in its IT system, and similar situations exist in electricity, rail transport and port facilities and several major municipalities.

The company grew rapidly from its start up to 2017. Revenue increased from ZAR59 million in 2001 to ZAR176 million in 2003, to ZAR3.64 billion in 2012 to ZAR15.1 billion in 2017[6], a compound annual growth rate of 38.5% per annum over the 17-year period, while the labour force grew from 600 in 2003 to 3400 in 2012 to 12500 in 2017, when the company claimed it had 5000 clients. The share price rose from ZAR1.20 at end-June 2002, to ZAR10.35 at the start of 2010, to its all-time high of ZAR178.24 in August 2015. In mid-2017, when its share price was ZAR125.80, EOH's market capitalisation was approximately ZAR17 billion, equivalent to over USD1.3 billion.[7]

EOH's growth strategy was acquisition-focussed from the start, buying many small startups using a combination of cash and EOH shares. For example, in the second half of 2011 alone, seven such acquisitions were made. By 2018, EOH had 273 subsidiaries. Given their number, there was very little integration of the acquired companies into the organisation, and the start-up entrepreneurs in most cases continued to run their businesses as autonomous units within EOH.[8] When bidding for contracts, an acquired business benefited from EOH's JSE listing, its black economic empowerment (BEE) certification and its market power, while the entrepreneur of the business, many of whom became EOH managers, continued to gain financially as long as EOH's share price was rising. Over time, EOH expanded its sphere of activities from IT narrowly-defined – in particular, original software development, re-selling software for global suppliers such as Microsoft and SAP, IT system development and IT outsourcing – to include a much wider range of activities such as security systems, business process outsourcing, training, and infrastructure system development and specialist service provision in water and energy (such as metering, loss control and conservation), offered to customers (especially public sector entities) already using EOH's IT services. In municipal water management, for example, it had acquired 12 companies by 2018, with stock market analysts seeing the company's venture into water and energy infrastructure as a positive feature for its profits and for the local authority customers.[9] The company also expanded internationally and in the mid-2010s, had a presence in 33 African countries as well as the US, the UK, Australia, and the UAE.

[6] The 2017 revenue figure comes from the company's financial statements published in late 2017, under the original leadership. The 2018 accounts as published in late 2018 by the old leadership gave a revenue figure of ZAR16.34 billion, with operating profits of ZAR977 million. As discussed below, in the 2019 Annual Report – the first involving the new EOH leadership – the 2018 numbers were revised downwards to revenue of ZAR12.1 billion and operating of ZAR -582 million, that is, operating losses.

[7] USD1.00 = ZAR12.94 on 29 June 2017. https://www.xe.com/currencycharts/.

[8] For example, financial management, accounting and HR systems of acquired businesses commonly continued unchanged, creating a patchwork of invoicing, payroll and asset management processes across EOH.

[9] Mike Muller, Money down the Drain: Corruption in South Africa's water sector, Corruption Watch and Water Integrity Network, March 2020, page 41 ff. See https://www.waterintegritynetwork.net/2020/03/12/watersectorcorruption-southafrica-2020report/

The first reports of corruption involving the company emerged into the public domain during 2017, linking it through subsidiaries to concerns about state procurement processes in three different national government departments: IT services for the SASSA social grant system of the Department of Social Development, security equipment for the SA Police Services, and the provision of an IT system and user support to the Department of Water and Sanitation (DWS).[10] At this time, the EOH management commissioned an investigation of questionable contracts by ENSAfrica, one of South Africa's major corporate law firms, who would, the company said, also provide independent oversight of "material public sector engagements and contracts."[11] This investigation – later characterised as a 'desktop job' (GIBS, 2021) – gave the all-clear. In June 2017, Asher Bohbot resigned as CEO, though he stayed on as an advisor (and key shareholder) for six months, before becoming a very hands-on non-executive chair in March 2018.

The company reported a decline in performance during the second half of 2017 and the share price dropped from ZAR158.02 in January 2017 to ZAR66.71 in December 2017 and then ZAR39.24 by the end of March 2018.[12] Pressure from outside shareholders – in particular from a BEE company, Lebashe, with whom EOH had signed a strategic partnership on March 2018[13] – forced Bohbot (now chair) to restructure the company's executive management. Lebashe had originally promised to inject ZAR250 million in equity and provide ZAR3 billion in other funding, but after EOH's April 2018 half-yearly meeting, part of the conditions precedent for this infusion of cash was the recruitment of a new CEO.[14] The company continued to argue through much of 2017 that there had been no significant reduction in corporate performance, listing revenue as ZAR16.3 billion (7.5% greater than the 2017 figure) for 2017-18 in the results reported in October 2018, with profits at ZAR1.2 billion.

When the accounts were restated in 2019 by the new leadership, the 2017-2018 performance was significantly reduced to after-tax losses of ZAR-582 million on revenues of ZAR12.1 billion, 25% less than the original statement.

[10] On SASSA, there was a link to Jehan Mackay: see Craig McKune, The minister, the middleman, the mansion and the new corporate kid, amaBhunghane 13 April 2017, and revised version 25 October 2017. https://amabhungane.org/stories/the-minister-the-middleman-the-mansion-and-the-new- corporate-kid/; on SAPS, there was a link to Asher Bohbot and John King: see Marianne Thamm, Sita/SAPS Capture – Scopa hearing marks a turning point as massive fraud uncovered, Daily Maverick 30 November 2017. https://www.dailymaverick.co.za/article/2017-11-30-analysis-sitasaps-capture-scopa-hearing-marks-a-turning-point-as-massive-fraud-uncovered/; and on DWS, there was also a link to Asher Bohbot and John King: see Muller, 2020 (note 10), citing a news report from 31 July 2017.

[11] JSE SENS, 'EOH Update and Cautionary Announcement', Dec 11 2017. https://www.profiledata.co.za/JSE_SENS_PDF/history/2017/12/11/SENS_20171211_S393208.pdf

[12] See Paula Gilbert, Earnings warning sends EOH stock into nosedive, ITWeb, March 15 2018 https://www.itweb.co.za/content/6GxRKMY8gDn7b3Wj; and Duncan McLeod, EOH was caught up in state capture 'war': Asher Bohbot, TechCentral, 28 March 2018 https://techcentral.co.za/eoh-was-caught-up-in-state-capture-war-asher-bohbot/80451/.

[13] See Paula Gilbert, EOH shifts strategy, splits business, ITWeb 13 March 2018 https://www.itweb.co.za/content/GxwQD71AXnb7lPVo; and Larry Claasen and Natasha Meintjies, EOH: Ready to move on, Brainstorm, 27 June 2018 http://www.brainstormmag.co.za/verticals/14322-eoh-ready-to-move-on.

[14] Interview with EOH management. See also Hilton Tarrant, EOH shareholders voice their discontent, TechCentral 16 April 2018; and Rob Rose, The Trouble with EOH, Financial Mail, 14 Dec 2017 https://www.pressreader.com/south-africa/financial-mail/20171214/281552291205148https://techcentral.co.za/eoh-shareholders-voice-their-discontent/199879/. In June 2018, several executives who had been appointed to the board just a year earlier in May 2017, were forced to resign as directors, after shareholders failed to support their re-appointment in sufficient numbers. See Larry Claasen and Natasha Meintjies, Zunaid Mayet's tumultuous tenure at EOH, Brainstorm, 27 June 2018, accessed at http://www.brainstormmag.co.za/technology/news/14321-zunaid-mayet-s-tumultuous-tenure-at-eoh.

The shareholder-imposed need to restructure and professionalise the executive management was the rationale for his recruitment provided to Stephen van Coller, when he joined as the new CEO in September 2018, when the share-price was ZAR40.00. In mid-February 2019, less than six months after he started, a new corruption scandal emerged: Microsoft suddenly cancelled its reseller contract with EOH, after a whistle-blower in the Microsoft SA operation reported directly to both the Securities and Exchange Commission (SEC) and to Microsoft headquarters in the US their concerns about EOH's contract to supply Microsoft software licences to the SA Department of Defence.[15][16]At this point, the company was on the brink, its share price now down to below ZAR10 at the end of March 2019.

Microsoft's contract cancellation was a key moment in the battle against corruption at EOH, because the new CEO was able to use this very public scandal to accelerate processes he had already initiated. A very experienced businessperson who had held senior leadership roles in the banking and telecoms sectors, van Coller was of course aware of EOH's history of corruption when he accepted the job but understood it as a 'bad apple' problem, that is, he thought he could resolve it by removing a few individuals early in his tenure.

Once inside the company, it became evident immediately that the issues were far deeper than he had realised. The financial and accounting management systems were completely unfit for purpose, while governance, risk and compliance processes barely existed. For example, there was no proper alignment of accounts between business units and legal entities, and cash flow management was not integrated across the company. There were no standard procedures for executive committee meetings or records of its decisions, there was only a single employee (amongst 12 500 staff) with responsibility for compliance, and no internal audit function at all.

This was remarkable given the company's JSE listing, which required detailed and ostensibly strict reporting requirements, as embodied in the King Code on Corporate Governance, over and above the role of the external auditors in certifying the company's financial health, and the extensive public reporting by stock analysts and business media because of EOH's long-held 'blue chip' status on the JSE. None of these external agencies of accountability – the JSE itself, the auditors, or the stock analysts and business media – had raised concerns, beyond the few media reports in 2017 mentioned above. Van Coller had also learned that funds obtained by the company via a bank loan of ZAR3.2 billion (around USD230 million) at the beginning of 2017 to plug a cash flow hole, had largely been exhausted by the time he joined, possibly helping to sustain dividend payments, including to management who owned shares.[17] On van Coller's arrival, a restructured BEE deal was concluded with Lebashe, offering ZAR1 billion in equity with no additional debt facility.[18]

Even before the Microsoft cancellation, he had appointed two experienced executives from outside EOH to lead on finance and on risk. Megan Pydigadu (appointed as Chief Financial Officer in mid-January 2019 to replace John King who had been in place since at least 2008), and Fatima Newman (appointed in April 2019 to a new post of Chief Risk Officer) were women he knew well and whose integrity and skills he trusted. Newman's first task was to construct a risk and compliance system since this did not exist in EOH. Before they started, he informed them fully of the company's problems, to the extent he was aware of them. Both were motivated to join EOH not only to play a part in making a positive contribution to addressing corruption in the country but in considerable part because of their trust in van Coller. It must be remembered too that when they were recruited by him in late 2018, a few months after Cyril Ramaphosa took over as President from Jacob Zuma, there was a recognition across the South African business community not only of the urgency of addressing corruption but also a general sense of optimism about the prospects of doing so. Both executives remain in their positions and have led the anti-corruption efforts in EOH together with other members of the executive team, most recruited by van Coller and themselves.

[15] See D McLeod, EOH Microsoft ensnared in SEC corruption complaint, Tech Central, Feb 18 2019. https://techcentral.co.za/eoh-microsoft-ensnared-in-sec-corruption-complaint/87543/

[16] GIBS (2021) suggest that the whistle-blower reported similar problems with EOH's contracts with the City of Johannesburg and DWS to Microsoft and the SEC.

[17] There was also a further debt of ZAR600 million relating to an acquisition which had not paid off.

[18] See Staff writer, Lebashe invests R1bn in EOH Holdings, ITWEb July 30 2018. https://www.itweb.co.za/content/DZQ58vVJ1PEvzXy2.

The Microsoft situation provided a basis for completely changing the composition of both the executive management group running operations and of the corporate board of directors through the rest of 2019. This included ending EOH's association with its founder Asher Bohbot who was replaced as non-executive chair in February 2019. The period since then has been a period of identifying the true scale of corruption and mismanagement in the organisation and addressing it through a set of four broad strategies (discussed in Section 6), while trying to keep the company operating and restore its financial health, including by cutting its debt. The task was not made easier by the onset of the covid-19 pandemic from March 2020 and its impact on daily working life and the wider economy, further exacerbated in 2022 by the KZN floods and consequent riots, and global disruption from the Ukraine war.

Corporate revenue has continued to slide, partly due to asset sales to pay down the inherited debt, but also as other corporations reduced their exposure to EOH: for example, revenue for the year to June 2022 was ZAR6.03 billion, just over half the (re-stated) 2017-2018 level, with the company's labour force down to 7300 as of Feb 2022 from its peak of 12500 in 2017. The long-term debt had been ZAR3.4 billion in July 2018 but was down to ZAR3 billion by July 2019, ZAR2 billion by July 2020 and ZAR1.4 billion by July 2022, with short-term receivables cut from ZAR4.1 billion in July 2018 to ZARR3.4 billion in July 2019 and ZAR1.7 billion by July 2022. The share price had risen from its March 2019 low of ZAR1.04 to ZAR2.59 in March 2020 and to ZAR6.83 at the end of 2021, less than five percent of its level five years earlier. At March 31 2023, it was at ZAR1.74, as a result of a
1 for 2.24 share rights issue in January 2023 intended to normalise the capital structure, when ZAR600 million was raised at ZAR1.30 per share, with 91% of shareholders taking up their rights for more shares.

SECTION 4

An analysis of corruption at EOH – Sources of rent[19]

In looking at how EOH engaged in corruption, we treat the proceeds of corruption as a kind of 'economic rent', an income obtained by an economic agent due to their possession of an asset or a quality with scarcity value which is not available to all economic agents on the same side (demand or supply) of a market (Rose-Ackerman 2006; Khan et al. 2019). In the case of land rent, the asset is the particular productive quality linked to its geographical position of the land. Beyond land, economic rents may be derived from a scarce asset such as private knowledge based on technological innovation, or a monopoly or similar privileged access to a market, or the possession of a natural resource (Khan, 2000).

In the case of corruption, the scarce asset is the special privileging in a particular market (or process) derived from an actor's abuse of the rules and regulations of that market (or process). This allows the actor to occupy a position in the market beyond that warranted by their economic situation alone. The economic rent derived by the actor is the private financial gain over and above what they would have received without their abuse of power. The 'special privileging' or abuse of power may result from their private payment to a market regulator (as in a government procurement bid) or to a policy maker (as in a shift of market policy), or from their use of fraudulent accounting processes, product standards regulations or similar manipulation of market rules (affecting providers of capital or customers).

[19] Much information in this section came from current EOH employees with whom we engaged for this project. In line with confidentiality agreements, no information is attributed to any individual.

Economic rents are obtained through a 'rent extraction process', which involves an analysis of the political power and organisational scope of those benefiting from the rent, so that in the case of corporate corruption, we need to understand precisely how the formal corporate rules have been (mis-) used. This section examines the rent-seeking processes within EOH in more detail and then Section 5 provides information about the groups within the organisation which benefited from those income streams. Both sections look at two other dimensions which enabled the rent streams – the rules (or their absence) within EOH itself, and the policy and regulatory environment affecting corporate behaviour in the national economy.

We can identify four distinct rent extraction processes within EOH, which differ not only in the mechanisms used but also in the (ultimate) source of the funds stolen.

a. The corporate capital market

The first rent stream related to the corporate capital market in South Africa, and the mechanism for rent extraction was based on the company's growth strategy. As noted in the previous section, this rested in part on the constant stream of acquisitions of smaller companies paid for by a combination (usually 50-50) of cash and EOH shares. For EOH as a whole, the acquisition stream promised – and for several years, helped to sustain – strong growth in its balance sheet, its revenues and profit.[20] The company's strong growth in turn kept the share price rising and enabled ongoing access to loan finance, both of which in turn helped to sustain the acquisition deal flow by providing the means to pay for smaller companies. In 2013, for example, EOH's share was the best performing on the JSE, rising 113 percent, and in 2014, it started an American Depositary receipt programme in the US.[21]

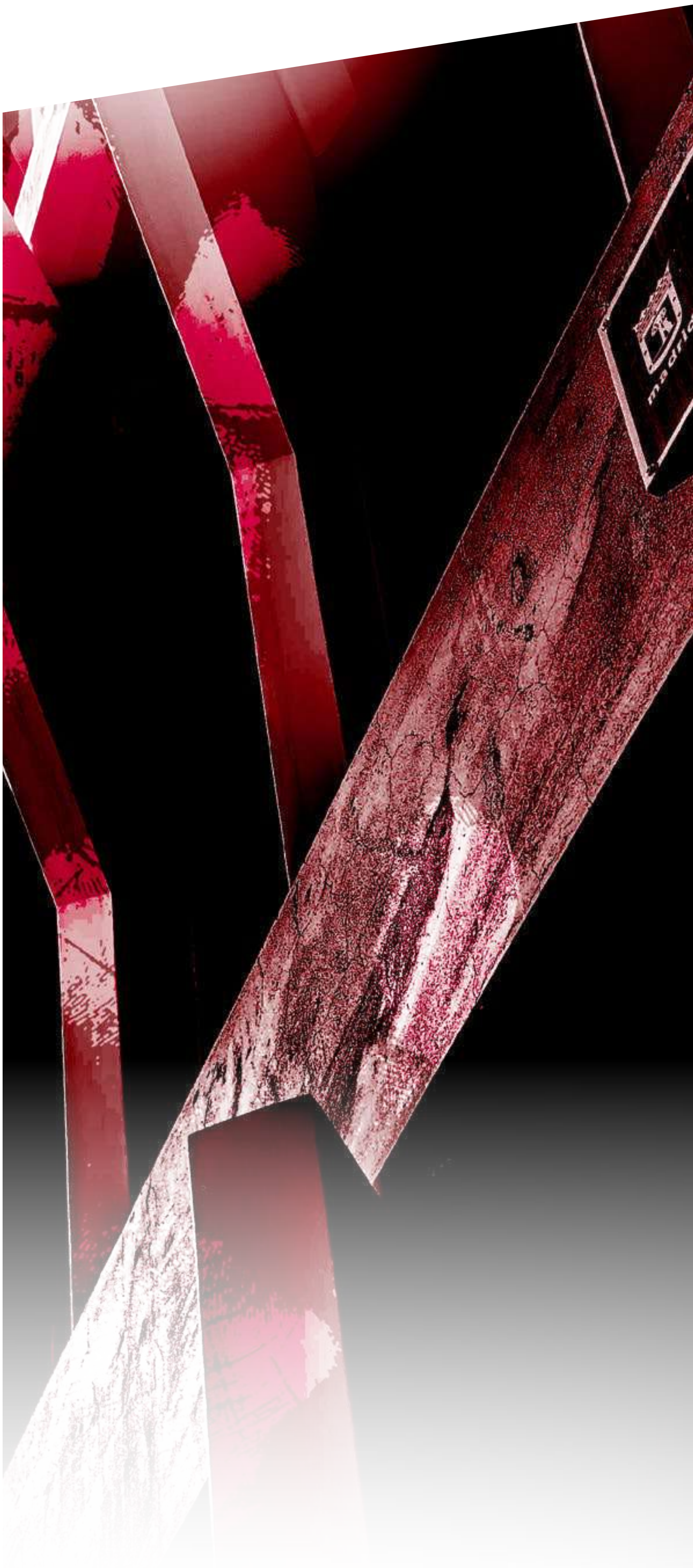
[20] See Staff Writer, EOH sees massive jump in earnings, Business Tech, 11 March 2015 https://businesstech.co.za/news/it-services/82257/eoh-sees-massive-jump-in-earnings/; and Paula Gilbert, EOH continues to grow aggressively, ITWeb, March 9 2016, https://www.itweb.co.za/content/3mYZRXM9NeNqOgA8

[21] See DJ Glazier, Unlikely hero EOH stock rose substantially last year, beating all other mid to large caps on the JSE. But what's next for the surprise victor of 2013?, Brainstorm ITWeb, 5 March 2014, http://www.brainstormmag.co.za/indepth/trends/10869-unlikely-hero; and Gareth Vorster, EOH targets US investors, Business Tech, 8 July 2014 https://businesstech.co.za/news/it-services/62201/eoh-targets-us-investors/.

The steady rise in the share price was one reason EOH was an attractive suitor to the founders of smaller businesses: since EOH had a much higher price-earnings ratio than that of the companies it purchased, the vendors were happy to receive EOH shares in part payment for their businesses, while shifting their business risk onto the much larger EOH. In return, they got a good salary and capital gains on their equity in EOH (as long as the share price kept rising), as well as a share of their own business' profits for a fixed period.[22]

A second reason EOH was attractive to the independent IT businesses they acquired was that these businesses found it difficult to win large contracts from large customers in either the private or the public sector. The reason was the risk facing the customer, should something unexpected happen to the supplier's founding entrepreneur leading to the small business being unable to fulfil its contract. If the entrepreneur was white, as many were, BEE requirements made large contracts even less likely – to grow their businesses, they had to become part of a bigger BEE-compliant entity.[23]

EOH often did little due diligence on the firms before acquiring them, and very little to integrate them into the corporate organisation once they had been acquired. Entrepreneurs and their staff became EOH employees, but they were largely left to run their business as they had before using the same systems, procedures and policies they had been using, rather than being required to integrate into EOH's business operational processes in finance, human resources, procurement or sales. Not even cosmetic changes were made – for example, email domains were in many cases left unchanged.



[22] Acquisitions usually involved limited-term profit warranties where the vendor undertook to deliver a specified profit over a defined period, usually two years, with the purchase price being adjusted, up or down, depending on the profit achieved over the period.

[23] The irony was that EOH was itself run by its founding entrepreneur, and this was one of the major, if not the main, source of the problems.

The rapid and substantial increases in the company's share price benefitted shareholders. Among the latter, the largest individual stakes, comprising around 4.5 percent of EOH's total equity each, were held by EOH's founder Asher Bohbot, and by Danny and Jehan Mackay, a father and son who had sold their IT start-up to EOH in 2012 and joined the EOH board and the senior management team respectively. In EOH's 2017 Annual Report, shareholdings in the company of its directors included:

(i) Shares (approx) as of 2016 year-end:	Asher Bohbot	6.894 million
	Danny Mackay	7.225 million
	John King	636 000
(ii) Shares (approx) as of 2017 year-end:	Ebrahim Lehar	716 000
	Jehan Mackay	7.173 million
	John King	505 000
	Rob Godlonton	623 000
	Zunaid Mayet	273 000
	Rob Sporen	85 000

In the 2018 Annual Report, Bohbot's shares were listed as approximately 6.540 million, King's were lower at 281 000, while Mayet's increased to 378 000.

Revenue and profit growth driving the share price upwards made possible substantial dividend payouts to shareholders. In 2017 and 2018, EOH paid out a total of ZAR565 million in dividends to shareholders, equivalent to 27.5% percent of its 2016 and 2017 after-tax profits. Losses in 2018, and the change in leadership, meant no dividend was paid during 2019, or since then.

The rising share price also created significant capital gains for shareholders, which could be realised via share sales but also were used by the executive management as collateral for bank loans. When the share price dropped suddenly and steeply in December 2017, the company (still under its old leadership) publicly acknowledged that the cause was the 'forced sale' of over ZAR143 million of EOH shares by financial institutions making 'margin calls' on loans in which the shares were collateral, to two EOH executive directors, John King and Jehan Mackay, who had sold nearly 300 000 and 3.6 million shares respectively (EOH *Annual Report* 2017).[24]

[24] See Paula Gilbert, EOH explains share price plummet, ITWeb 11 December 2017 https://www.itweb.co.za/content/3mYZRXM96rdqOgA8

The entrepreneurs who had been (part) paid with EOH shares for their businesses, many of whom remained employees and shareholders, were amongst the biggest losers once EOH began to be associated with corruption and its share began to slide – it dropped 55% in value through 2017, 56% through 2018 and 60% through 2019, and at the end of 2019 was worth only 8% of its value at the start of 2017. Share sales by this group had to be approved by John King, EOH's financial director until December 2018, which in most instances was not forthcoming.

Rapid growth in revenues and the associated increase in the share price also enabled EOH to get access to substantial external financing. For example, a large bank loan of ZAR3.2 billion was obtained at the start of 2017 before information about corruption emerged and the share price dropped, and appears to have been given against the security of future revenues and profits, with the rising share price and enthusiastic coverage from the media and equity traders providing comfort to the banks at the time the loan was arranged. This loan provides eloquent commentary about South African banks' due diligence on their corporate clients, as things turned sour quite shortly thereafter, and as already noted, these funds were spent within 18 months, as EOH's cashflow dwindled.

The Lebashe BEE deal – initially R250 million equity plus R3 billion debt financing for a 22 percent stake – was initially announced in March 2018, and from Lebashe's perspective was probably intended to replace the bank debt. Lebashe, a new BEE consortium with a financial services focus, was looking to buy into a technology firm in order to build a fintech business, and EOH's size and international footprint were key attractions. But as more problems at EOH surfaced, it appears that Lebashe's worries grew, and over and above its insistence on professionalising EOH's executive management, these initial terms were watered down in July 2018 to a still-substantial R1 billion in total,[25] comprising a further R750 million in 3 tranches of financing over 1 year (and no debt financing), and then further reduced in October 2019 (after the Microsoft partnership was cancelled), with the last tranche of R250 million cancelled, leaving Lebashe with a 13% stake for its ZAR750 million injection.[26]

A singular focus on revenue growth driven by acquisitions is not an uncommon corporate strategy and does not automatically imply the presence of corruption. But persistent increases in the growth rate of any variable are hard to sustain over a long period of time, and once the acceleration falters, a decline in the underlying variable can be hard to avoid. As a result, efforts to maintain an unsustainable pace of growth all too often cross the line into misrepresentation and fraud.[27]

In fact, based on the information available to them after they took over in 2018-19, EOH's new leadership under van Coller had major concerns with the financial accounts that had been published for earlier years. These concerns included the capitalisation of costs (which boosts asset values and current profits) and the frequent resort to 'technical changes in International Financial Reporting Standards (IFRS)' to explain aspects of the financial statements. In EOH's 2019 financial results, the first produced by the new leadership, there are substantial differences in specific balance sheet items from the previous year, suggesting the new leadership felt that the balance sheet and income statements had been significantly and inappropriately inflated in earlier years. Firstly, 'goodwill' and 'intangible assets' – both significant items in the balance sheet of an IT company like EOH, but also items where assessed value can be substantially influenced by accounting judgement – had been lowered from a combined ZAR8.2 billion in the 2018 accounts to only ZAR2.3 billion in 2019. Secondly, 'accounts receivable' was down from ZAR5.5 billion to ZAR3.1 billion and there was now proper bad debt planning – it seems that contract values had in many cases been fully included in current revenue immediately a contract was signed. As a result, total assets had dropped by 40 percent from ZAR16.04 billion in 2018 to ZAR9.8 billion in the 2019 balance sheet.[28] The 2019 accounts contained an explicit statement of disagreement by Mazars, EOH's longstanding external auditors, with the new management's restatement of these and other items, but from 2020 Mazars were replaced as auditors by PwC.

[25] See Lebashe statement: Lebashe and EOH sign R1 billion empowerment deal, August 1 2018 https://lebashe.com/lebashe-and-eoh-sign-r1billion-empowerment-deal/.

[26] See Paula Gilbert, EOH shifts strategy, splits business, ITWeb, 13 March 2018 https://www.itweb.co.za/content/GxwQD71AXnb7lPVo; and Larry Claasen and Natasha Meintjies, EOH: Ready to move on, Brainstorm Magazine, 27 June 2018 http://www.brainstormmag.co.za/verticals/14322-eoh-ready-to-move-on.

[27] This appears to have been part of what happened at Steinhoff. See Rose, 2018.

[28] In the 2020 accounts, both items had been further reduced, goodwill and intangibles at ZAR1.03 billion, and accounts receivables at ZAR2.1 billion, with total assets at ZAR7.2 billion.

b. Bid rigging in the public sector

The second rent stream involved 'bid rigging' in EOH's public sector business, which as already noted had expanded not only in scale but also in scope, as the corporation began to provide a range of services and goods to public agencies well beyond its IT 'core business'. The Zondo reports do not indicate that the public sector corruption at EOH was in any way linked with the Gupta family, but the EOH case does show that 'state capture' underway over those years in South Africa went well beyond the Guptas, whose activities laid the basis for much wider corruption by a range of private sector businesses and public officials.

The key internal players in EOH's corrupt public sector involvement were allegedly (according to court papers issued) Jehan Mackay and Ebrahim Laher. Jehan Mackay and his father Danny had sold their company TSS Managed Services, which specialised in public sector contracts, to EOH for ZAR130 million in July 2012, with Danny joining the EOH board and Jehan the management team. Laher had joined EOH in 2009 through selling his business to the company and had headed up the public sector unit but by 2017 was leading EOH's international operations.[29] Jehan Mackay later became head of EOH's Public Services Unit, and in the management restructuring when Asher Bohbot left the CEO position in May 2017, Danny Mackay resigned from the board and Jehan Mackay and Ebrahim Laher both joined it. The latter two resigned on July 1 2018 following a vote against their reappointment (and that of several other executive directors) by a significant minority of shareholders.

Several problematic episodes in EOH's public sector business have been widely publicised, in part by investigative journalists, and in part by the new leadership at EOH allowing its relationship with the City of Johannesburg to be analysed by the Zondo Commission on State Capture, with presentations both by Stephen van Coller and by the major law firm (ENS Africa) which carried out an independent forensic investigation of EOH's public sector contracts (RSA, 2022b).[30]

There were irregularities in several procurement processes, in which (it appears) payments were made to government officials directly involved in tender adjudication, or to various 'middlemen' in exchange for their influencing the award of contracts to EOH. In addition, EOH employees appear to have had the opportunity to draft or re-draft parts of tender documents in some processes, and to have been provided with 'inside information' to assist in preparing bids. 'Middlemen' publicly-named in EOH's Zondo testimony included some relatively prominent political figures, including Geoff Makhubo, a one-time mayor[31] of Johannesburg, and Zizi Kodwa, an ANC party spokesperson and adviser to former President Zuma at the time of the transgressions, but who later became a Deputy Minister in the national government under President Ramaphosa.

One mechanism used to channel funds to 'middlemen' was the 'enterprise development (ED)' requirement of all public sector contracts in South Africa, whereby 30 percent of the contracted value of all public procurement had to be provided by small and medium enterprises. In several EOH contracts, ED subcontractors were paid for work which they did not do: when van Coller testified at the Zondo Commission in November 2020, the company was aware of a total of ZAR865 million irregular payments of this sort.[32] In one contract with the SA Police Service to supply IT equipment and support its use for three years (mentioned above), EOH was paid the full ZAR210 million value of the contract up-front, which may have contravened public procurement regulations managed by the National Treasury. And then 20 percent (ZAR42.5 million) of this already-improper payment was paid on to a middleman, who, it seems, transferred the bulk of the money onwards to third party companies controlled by Jehan Mackay and other EOH managers, retaining only a ZAR1 million 'handling fee'.[33] In addition, EOH made about ZAR100 million in loans to various enterprise development partners. Some of these payments and loans may have been to middlemen who had facilitated contracts in which they were included as development partners.

[29] Admire Moyo, EOH CEO Asher Bohbot to step down, ITWEb 150517 https://www.itweb.co.za/content/eDZQ58MVBRMzXy2B

[30] See the final Zondo report Part IV Vol 1(RSA 2022b) for a full discussion, and media reports at the time of the EOH testimony by Samuel Mungadze, ANC bigwigs, Joburg mayor named in EOH's state capture testimony, ITWEb 26 Nov 2020 https://www.itweb.co.za/content/mQwkoM6PLLlv3r9A; and Dewald Van Rensburg, How EOH got fleeced: the case of the 'fronts for hire', amaBhungane, 25 May 2021 https://amabhungane.org/stories/210525-how-eoh-got-fleeced-the-case-of-the-fronts-for-hire/

[31] At the time he received improper payments from EOH, he was the city council's executive committee member for finance, but later became the mayor.

[32] Dewald Van Rensburg, How EOH got fleeced: the case of the 'fronts for hire', amaBhungane, 25 May 2021 https://amabhungane.org/stories/210525-how-eoh-got-fleeced-the-case-of-the-fronts-for-hire/.

[33] RSA (2022b) for the full details, though the financial values are taken from Van Rensburg's media report (see note 26).

Several focus group respondents reported that EOH employees had in the past been involved in preparing terms of reference for customers' procurement processes, which was also noted by Zondo (RSA 2022b), while others indicated that there was a general lack of awareness amongst staff of concepts such as conflict of interest or improper influence on customers and suppliers, and activities were widespread like provision of hospitality and gifts. Bid-rigging was largely confined to EOH's public sector work: EOH's private sector business has not been a focus of media attention or official public inquiry, and the current executive team have confirmed that evidence of bid-rigging has only been found in one private sector process, involving EOH's Cornastone business and the Cell C procurement department.[34]

As with the first rent stream which underlined regulatory weaknesses in the corporate capital market, it is important to underline the critical role of a lax external environment in enabling bid-rigging and appropriation of public funds. In this second rent stream, well-intentioned public policies to achieve valid policy objectives regarding post-apartheid transformation – SME promotion using public procurement, and deracialisation of the private sector using black economic empowerment targets – were fundamentally undermined because the mechanisms intended to achieve them opened opportunities for corrupt rent extraction.

The EOH experience illustrates how 'state capture' in South Africa during the Zuma presidency went well beyond the Gupta family and the 'high-level' elected politicians and state managers within their net. This is well-known and has been examined in detail in the reports of the Zondo Commission. But aside from the big international consultancies (Bain and McKinsey), the businesses identified by Zondo as stealing public funds were little-known entities, and in particular were not *corporations*, that is, large businesses listed on the JSE, and thus not subject to the governance requirements and transparency mechanisms associated with JSE-listed corporations. EOH was the only large South African corporation mentioned in the Zondo Report and raises the issue of a possible connection between the subversion of the corporate capital market on one hand and the theft of public funds on the other, that is, of possible interaction between the first rent stream and the second.

Evidently, both streams were enabled *inside* EOH by the lack of formal controls and the weak ethical sensibility fostered by the single-minded focus on revenue growth, and some senior EOH executives benefitted from *both* rent streams.

But what about interactions across the external regulatory environment: did weaknesses in the corporate capital market, which enabled the first rent stream, also contribute to the second? That is, did EOH's 'blue chip' status due to its star performance on the JSE and its prestige as a large South African multinational give it unwarranted credibility in public procurement processes, leading to inadequate inspection and oversight of the corporation in the public sector, especially as the scope of its engagement broadened well beyond IT? Or were improper payments to officials and politically connected individuals alone sufficient for EOH to be awarded public sector contracts, in the same way as smaller privately-owned businesses not on the financial community's radar screen? This question is central to understanding whether greater transparency and visibility in the corporate sector is an adequate anti-corruption strategy, as in the standard approach, or whether more interventionist methods are needed, included more monitoring of adherence to rules, together with programmes aiming to develop a new organisational culture (Hess and Ford, 2008).

c. Defrauding suppliers and customers

The third rent stream used in EOH involved the defrauding of EOH suppliers and customers through mechanisms including false invoicing, non-delivery of services or products for which payment is claimed, or simply excessive pricing of services or products delivered. For example, the whistle-blower report to the SEC and Microsoft US suggested that in EOH's contract with the Department of Defence involving the provision of Microsoft licences to the DoD, EOH received about 60 percent of the value of the ZAR120 million (USD8.4 million) contract, a far higher share than its 'agency' services warranted.[35] This seems to have happened in other contracts and with other customers, both public sector and private sector. Actions of this sort would almost certainly have required collaborators on the other side of each transaction, that is, employees of the supplier or customer.

[34] See Jan Vermeulen , Cell C IT executive accused of stealing over R130 million in 8 years, My Broadband, 6 September 2021 https://mybroadband.co.za/news/cellular/412762-cell-c-it-executive-accused-of-stealing-r357-3-million-over-8-years.html

[35] See D McLeod, EOH Microsoft ensnared in SEC corruption complaint, Tech Central, Feb 18 2019. https://techcentral.co.za/eoh-microsoft-ensnared-in-sec-corruption-complaint/87543/

Related to this, as well as to the first stream, was fraud perpetrated on the software multinationals for which EOH was a major re-seller in South Africa. In its 2015 Annual Report, EOH listed 21 international corporations as 'technology vendors and partners', including Microsoft, SAP, Oracle, IBM, Huawei, and Adobe. In order to meet their suppliers' targets and retain their 'top tier' partner status, sales of software licences were falsely inflated on two specific contracts (one for Microsoft and one for SAP), with licences reported as sold being included as assets on the EOH balance sheet, as well as inflated prices being charged in some instances for licences which were delivered. As discussed below, EOH has settled both cases with South African law enforcement agencies and the companies involved, and is now repaying the over-invoiced amounts.

This rent stream is different from the second stream which involved inappropriate payments and other inducements to win contracts, whereas this stream involved fraudulent documentation to extract additional payments from contracts already won, whether by fair means or foul, such as those with national government departments.

d. Petty corruption

The fourth and final rent stream can be labelled petty individual corruption, involving employees of EOH obtaining illegitimate financial benefits as a result of extremely lax financial controls over a very decentralised corporate entity without integrated accounting and operational systems. This gave business unit heads, many of them entrepreneurs who had sold their start-up businesses to EOH, significant discretion over the use of bank accounts for payments to themselves and their staff. Benefits mentioned to us ranged from over-claiming on work-related costs such as overtime and travel expenses, through inflated bonuses, to using EOH funds for personal or domestic expenses. People in our focus groups and interviews mentioned EOH employees charging the company for home satellite TV subscriptions, and much more grotesquely, one employee spending ZAR5 million of EOH funds on a wholesale purchase of cigarettes which was then sold through their suburban networks. These items were each small in financial terms, but perhaps even more important than the total financial cost, which is unknown, is their scale (also unknown) in terms of the number and distribution of employees who benefitted, as this would provide some indication of the degree to which tolerance of bending, breaking, or ignoring explicit rules and generally low ethical standards had permeated the entire organisation.

This rent stream was very different from the first three, as it is decentralised and dispersed, involving multiple small rents, while the first three involve much larger rents which were fewer in number, requiring the exercise of greater power within EOH, and accruing to a few senior people in the organisation.

In the only (public) summation by EOH of an amount stolen across different streams, in the 2019 Annual Results presentation in October 2019, the first by the new executive team under van Coller, the company provided a figure of ZAR3.7 billion of 'material mistakes' between 2013 and 2017, including ZAR900 million for a one-off investment into Zimbabwe, ZAR750 million on non-cash generating assets, another ZAR750 million on inefficient contracting and cost overruns, ZAR400 million on business with a single client, and ZAR935 million on 'lack of governance and controls' involving enterprise development contracts.[36] The 2019 Annual Report spelled out further that the ZAR935 million was a downward adjustment from the previous estimated loss from enterprise developments of ZAR1.2 billion, after ZAR315 million was found to consist of valid work, done by 28 ED enterprises. The still-outstanding amount related to another 50 ED enterprises, and included ZAR665 million of 'ghost contracts', ZAR90 million of written-off loans and ZAR180 million of over-billed invoices. The bank loan of ZAR3.4 billion taken out in early 2017 was an attempt by the previous management to replace this 'lost' money.

These amounts cover the first three streams, while it is probably impossible to know the amount stolen across the fourth stream of petty corruption. But the amount of ZAR3.7 billion does not cover the full scale of corruption, as it excludes dividends and capital gains accruing to shareholders, including in management, as the share price rose, and in addition it also excludes lost revenue from future sales of Microsoft products[37], and repayments of ZAR220 million later made to the South African government for software licensing contract fraud.

[36] See https://www.eoh.co.za/wp-content/uploads/2019/10/EOH-FY-2019 15-October-2019- EXECUTION.pdf. See also Admire Moyo, EOH looks to renew cancelled Microsoft contract, ITWEb 15 October 2019 https://www.itweb.co.za/content/RgeVDqPomaYMKJN3. A later estimate of ZAR865 million on the ED business was provided in the Zondo Commission evidence.

[37] EOH estimated ZAR10 million from the existing contract, but potential future contracts also need to be taken into account.

SECTION 5

Informal networks and organisational power within EOH

We turn now to examine the role of informal networks and corporate culture in the different forms of corruption. An important and in some ways prior question is whether the multiple rent streams (referring specifically to streams one, two and three) operating within EOH were linked, or was each operated by a distinct informal (criminal) network inside the corporation? In other words, were there multiple networks inside EOH? Or were Bohbot (the CEO) and King (the CFO), who appear to have led the strategy involving acquisitions and revenue growth focussed on the capital market (JSE and banks), operating separately from Laher and Jehan Mackay, who appear to have led the activities extracting rent from the public sector? All these individuals (who were sued by EOH for a total of ZAR6.4 billion, or about USD450 million) had substantial formal authority within EOH, of course. Bohbot had brought Laher and Mackay into senior executive positions in EOH in the first place, as well as the elder Mackay onto the board (as non-executive director from late 2013 to mid-2017), later moving Laher and the younger Mackay onto the board.

More generally, are multiple criminal networks feasible inside a single corporation? Would they compete for the same rent streams? Can they co-exist, each in their own 'turf', or are they necessarily colluding? This must depend on the nature of the revenue streams, but competition for the same revenue stream amongst corrupt groups inside a corporation is unlikely, given the risks of exposure by a competitor group. Even co-existence of multiple networks focussing on distinct rent streams is likely to be unstable: exogenous events could disturb such an 'equilibrium' leading to exposure of one or both groups.

Collusion and collaboration are the most likely outcome, especially where revenue streams are complementary. We cannot be certain but as discussed above, the revenue streams in EOH clearly benefitted each other, which even suggests a possible 'division of labour' amongst those leading the corruption.

But there were evidently many people complicit in rent extraction at EOH beyond the few named in the Zondo reports and EOH public statements, and they spanned a wide range of stakeholders. The current EOH executive suggests there were three 'rings' of employee involvement in direct state-linked corruption, that is, rent stream 2 and possibly 3 above. The first was those at the centre of the process and who benefited directly. In reporting to shareholders and others in July 2019 after completion of the ENSAfrica investigation, van Coller indicated it uncovered ZAR1.2 billion of 'suspicious payments' between 2014 and 2017, involving eight EOH executives, with around 85 percent of these payments going to around 20 suppliers.[38] He reported that the eight employees "issued dubious invoices, paid money to people who had done little bona fide work, used connected middle-men that were known and used as introducers and sales agents, conspired with suppliers and partners to facilitate artificial or inflated software licence sales and made use of inappropriate gifting, sponsorships and donations to secure contracts. The eight … were not directors of EOH, but they were directors of subsidiaries and their middle management".[39] A few months later, in its October 2019 presentation of its annual results for the year 2018-2019[40], the new executive referred to 16 unnamed employees against whom action had already been taken, including reporting them to the Financial Intelligence Centre (FIC) and the Hawks (the South African Police Services' Directorate for Priority Crime Investigation (DPCI)), as well as relevant professional associations. The 16 employees surely included the four former directors against whom EOH instituted civil court action in June 2021, as well as the eight non-directors mentioned in July 2019. Others may have been added later to the initial sixteen.

[38] See Staff Writer, EOH chief exec clears the air on corruption report and resignations, 16 July 2019 https://businesstech.co.za/news/it-services/329395/eoh-chief-exec-clears-the-air-on- corruption-report-and-resignations/.

[39] See Sasha Planting, A R1.2bn pot of toxic soup at EOH, Daily Maverick, 17 July 2019 https://www.dailymaverick.co.za/article/2019-07-17-a-r1-2bn-pot-of-toxic-soup-at-eoh/.

[40] See https://www.eoh.co.za/wp-content/uploads/2019/10/EOH-FY-2019_15-October-2019-_EXECUTION.pdf

A second ring of employees consisted of people complicit in corruption through acts of commission linked to their formal organisational roles, such as financial directors signing off on specific invoices or business unit accounts, compliance officials, or personal assistants who helped on paperwork or logistical arrangements. The third ring was comprised of people implicitly involved through acts of omission, that is, they were aware of or suspected corruption but did not report it, though some may have left EOH to avoid the dilemma. We are unable to provide numbers for the second and third rings, but given that EOH's total workforce at the time was over 10 000 people, the percentage of the workforce across the three 'rings' remained small, below 10 percent. Outside EOH, other collaborators included people at suppliers or customers involved in bid-rigging and fake invoicing: in their October 2019 presentation, the new executive management indicated that over and above their own employees, they had also reported to the FIC and the Hawks 12 people in government and 18 people in enterprise development (ED) companies, as well as 50 ED entities, and made seven PRECCA Section 34 reports.[41]

EOH staffers participating in our focus groups spoke of their surprise at learning about the relatively large number of people who were involved. How did those leading corrupt activity exert power over all these people? Based on what we were told in interviews and focus groups, a distinction can be drawn within EOH's subsidiaries. On one hand there were the businesses which had been acquired by EOH and maintained their prior organisational form as separate business units within the corporation despite the change in ownership, while on the other hand were business units which were based on software platforms (such as SAP, Oracle or Microsoft). These two sets of business units appear to have been organised differently within EOH's formal structures, and to a considerable extent reflected distinct corporate cultures.

Some of our respondents referred to a 'second exco' in one of the software-based business units, a shadow group which met at a cafe outside EOH offices, and which had real decision-making powers. Senior EOH executives exerted considerable hands-on control over the business units linked to software platforms, including in some instances personalised and informal interventions to override formal rules and controls (where those existed). There was fragmentation across these units, in the sense of very little interaction of staff across platforms – EOH employees in the 'Microsoft' and 'SAP' units barely knew each other, we were told, even when operating out of the same office building. On the other hand, collaboration did occur between the separate Microsoft units focussed on private sector and on public sector customers. When this sort of collaboration did happen, it was often the private sector unit which did the 'heavy lifting' in terms of technical expertise, ensuring delivery to the public sector customer. But it was the public sector unit which decided not only the price charged to the customer (which was often inflated), but also the margin earned by the private sector unit, that is, the share of EOH's revenue credited to that unit, and the payments made to third-party businesses, that is enterprise development or consultants. This gave the executives running the public sector unit control over significant revenue flows.

[41] Section 34 of the Prevention and Combatting of Corrupt Activities Act (PRECCA), Act 12 of 2004 requires people 'in authority' who ought to have known about offences involving theft, fraud, extortion, forgery involving ZAR100 000 or more, to report this to the Hawks.

The small independent businesses acquired by EOH, many of which provided niche products or specialist services, for the most part functioned as small fiefdoms within EOH, keeping their prior organisational identity intact while remaining disintegrated as a group.[42] As noted, EOH was a very complex organisation involving a large number of subsidiaries (273 in 2018) and no overall strategy planning process, and the complexity itself encouraged a culture of rule-bending and -breaking, including in acquired businesses, contributing to rent stream 4. Some of our respondents who had joined EOH as part of these businesses spoke of enjoying their continued independence, being 'allowed to do their own thing'. Their relationship with 'the centre', that is, with EOH as a corporate entity, was characterised by some respondents as "reporting rather than governance": EOH demands and expectations focussed on meeting financial targets and financial reporting, with little control or discipline over their activities or emphasis on adherence to corporate rules and governance codes. Most of the previously-independent entrepreneurs had not worked in large corporations and retained an independent small business mindset in terms of marketing, bidding on contracts and service delivery.

They did not seek to build collaborations and partnerships with other EOH units, and indeed often competed for the same contracts. The wider culture of the ICT industry probably encouraged this – for example, many large international OEMs offered 'perks' to potential customers like trips to conferences and workshops abroad when marketing new products, encouraging multiple bids from a single but fragmented corporation like EOH.

When hiring staff, EOH subsidiaries did not look first to the corporation's existing workforce – job ads were not even posted internally to allow existing EOH employees preference in applying. Subsidiaries continued to use their pre-acquisition financial, human resource and operational systems, and even their own internet domain names. Some of these acquired businesses may have continued to uphold 'good governance' practices *within* their business units, but the prevalence of petty corruption, the fourth corruption rent stream, suggested many did not. The number of people involved in this is unknown, but it was surely much larger than the first three, and executives we interviewed suggested it may have been as high as 10 percent of EOH's workforce.

It appears that very little information on these business units' activities was collected, allowing little oversight or even insight into the state of the organisation as a whole. There was little strategic planning across the organisation, with decision-making being reactive and personalised in the hands of the executive leadership. To develop an EOH-wide strategy in 2019, the new management under van Coller had to carry out what was in effect a 'census' of the business units, asking them to complete standardized forms to provide basic information on their activities, because no such information database existed. Remarkably, given that EOH itself developed and adapted IT systems and software for a wide range of large organisations in South Africa, its own internal systems were manual or at best based on basic spreadsheet software. This neglect can only have been deliberate, as suggested by some of our respondents who had joined the corporation since 2019. During interviews and focus groups, the image that came to mind more than once was a multi-billion rand corporation being run like a corner shop.

There were many other gaps and weaknesses relative to standard corporate practice in South Africa, and which again illustrate the limitations of the voluntary standards approach to governance regulation at the JSE and more broadly in the South African corporate capital market. The EOH legal department was very small (only seven people) and simply vetted contracts with no responsibility for compliance or risk management. Remarkably, for a large publicly-listed company, there was no internal audit function within EOH, and as noted above, only a single compliance staffer. Many EOH subsidiaries did not produce full sets of accounts, their boards did not meet regularly, and there was limited oversight from the EOH board. The board included not only Danny Mackay, but also other questionable appointments, such as Rob Sporen who had been an executive director of the company from its 1998 listing to 2007, but was then appointed lead *independent* director (emphasis added), a position he occupied until early 2019.

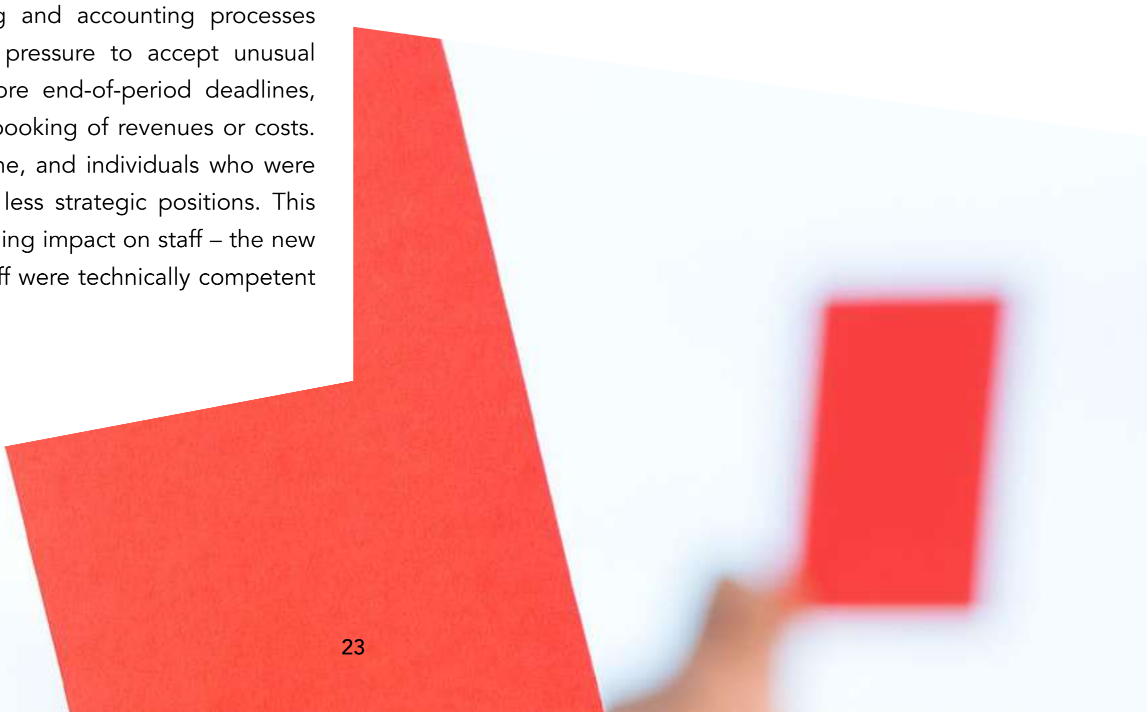
[42] Though we should note that the Mackays and Ebrahim Laher came into EOH via acquisition of their (separate) businesses.

How was control exerted over individuals? One important set of instruments was financial. There was no standardisation of remuneration packages or staff promotion and increases across EOH, and some people may well have been rewarded for compliance, or silence, on corrupt practices via their basic salaries. However, bonuses were a key mechanism, as these were the personal decisions of executives, with many employees' bonuses being decided by Asher Bohbot himself. Almost every financial director got generous bonuses, while unit bonus pools were linked to contracts signed and profits booked rather than to cashflow or actual revenue. Many employees, both entrepreneurs who had sold their businesses to EOH and others, had a substantial share of their wealth tied up in EOH shares, giving them an interest in the company's financial success (that is, rent stream 1) and little incentive to 'rock the boat'. Some senior managers resigned, apparently unhappy with inappropriate business practices though not necessarily expressing this. But many others were pushed out after the new management took over, either because they had directly benefited or because they had been complicit by failing to act. The departure of at least some of the latter surprised subordinates who told us they had regarded them as 'not involved', the phrase itself illustrating that many people inside EOH were aware of wrongdoing inside the corporation.

Over and above financial incentives to comply, employees were on one hand seduced by the use of charm and charisma to build personal loyalty towards the CEO and other executive managers, and on the other, subjected to extreme pressure and manipulation to comply with instructions from their superiors. Both current executives we interviewed who had started at EOH under the old leadership and ordinary employees in our focus groups mentioned frequent bullying and shouting, and micromanagement of invoicing and accounting processes by senior managers, such as pressure to accept unusual adjustments to these just before end-of-period deadlines, or premature or very delayed booking of revenues or costs. Many felt powerless to intervene, and individuals who were uncooperative were moved to less strategic positions. This bullying had a deeply undermining impact on staff – the new management felt that many staff were technically competent but had very low self-esteem.

What was the role of gender, race and language group in structuring the networks engaging in corruption at EOH? Leadership in corrupt activities was clearly exercised by a small group of men – some women in our focus groups referred to this group being a 'boys' club'. None of the leading group were women, though there were certainly some women directly involved in the corruption, both in contract rigging and in improper accounting practices – most of the financial directors were women, as were the then-company secretary and the sole compliance officer – and some bullying of subordinates – both women and men – appears to have been done by women. Race may have been less pertinent: the old leadership group included no black Africans, but there were 'whites', Indians and 'coloureds', using the historical racial categories. Many of the businesses acquired by EOH were run by white male Afrikaans-speaking entrepreneurs, which may have facilitated these units' continued independence, but this was only one element of the fragmentation of the corporation as a whole.

The distance and autonomy from the centre allowed by regional differences may have been significant: several focus group participants based in Cape Town talked about the greater cohesion of staff based there across different business units, as compared with what they saw in Johannesburg, and others spoke of Cape-based managers pushing back against the 'anti-governance' stance of the corporate leadership. It is worth noting that the Cape Town-based leadership has apparently largely remained in place since the new management took over. The apparent significance of proximity underlines the salience of informal networks and authoritarianism.



In summary, we can use the dimensions of Hofstede's (1990) well-known framework focussing on corporate culture, discussed further in the next section, to characterise EOH under the old leadership. The corporation was a fragmented organisation with a relatively flat formal hierarchy enabling the centralisation and personalisation of power within the executive management, while also limiting the internal flow of information, especially horizontally across divisional sub-sections, and facilitating informal and idiosyncratic decision-making. Internal controls were loose rather than linked to rules and enforced. There was a narrow focus on outcomes in the form of financial performance rather than on processes to win business and deliver quality products and services, for example, side payments to win contracts were seen as quite acceptable. There was no effort to build a climate of transparency and accountability. Employees were under pressure to prioritise their job performance over their well-being, and to adopt a parochial stance favouring the business' performance rather than conducting themselves in line with their professional ethics.

SECTION 6

Anti-corruption strategy at EOH – four elements

The anti-corruption strategy at EOH has involved a complete restructuring of the organisation, which we discuss in terms of the four dimensions identified in Section 2 above; on one hand, the internal formal rules and systems and the external regulatory environment which together comprise the top-down approach, and on the other, the informal groups and networks and the corporate culture which are part of the complementary bottom-up approach. As we show here, the focus has gone well beyond removing the key leaders of the prior corruption from the corporation, to include both top-down and bottom-up measures: instituting a wide range of new rules and processes and addressing various public and private regulatory agencies while also undertaking quite dramatic shifts in the corporate culture.

a. Changing informal networks within EOH

As already described, Stephen van Coller was hired as EOH's CEO in June 2018, taking up the role in September. This followed increasingly strong rumours of corruption, a decline in corporate performance and the tanking of the share price in the second half of 2017, which led to extremely strong shareholder opposition (led by Lebashe, the BEE partner) to the incumbent executive management in April 2018, voting against the re-appointment of the CEO (Zunaid Mayet) appointed a year earlier to take over from Asher Bohbot, against the board appointments of four executive directors (including Laher and Jehan Mackay, who were – astonishingly – allowed to remain as senior executives), and against the proposed executive remuneration policy.[43] Bohbot was forced to initiate the recruitment of a new CEO from outside the corporation.

Though he was of course aware that EOH was under something of a cloud when he took the job, van Coller acknowledges he underestimated the depth and scale of the problem. But once he had started in the role and began to become aware of the true state of things, he had the executive authority to act, both to get rid of problematic employees, and to bring in new senior staff. By the time the Microsoft scandal broke about 5 months after he started, he had already recruited two experienced corporate executives as deputies, Megan Pydigadu and Fatima Newman, who did not know each other but each knew van Coller well (he had worked previously with Newman at two listed companies).

When he joined EOH, van Coller had formal authority as CEO, but his power within the corporation was limited: he had no informal networks with staff whom he could trust ethically or rely on to provide information and support implementation of his strategy. In fact, useful and credible management information was very limited, given the absence of systems inside EOH. Conversely, the staff did not know him or necessarily see him as credible: although he had been hired from MTN, the mobile phone operator, many staff saw him as an outsider to the IT industry, a banker knowing little about the sector, and having the wrong priorities, that is more concerned with the financial issues than the service delivery ones. Three years after he started at EOH, some staff still described him (and Pydigadu and Newman also) in these terms.

[43] The 'anti' votes were between 15% and 30% but this was enough to force the change. Hilton Tarrant, EOH shareholders voice their discontent, TechCentral 16 April 2018 https://techcentral.co.za/eoh-shareholders-voice-their-discontent/199879/ and Admire Moyo, EOH restructuring sees CEO relinquish post, ITweb, June 27 2018 https://www.itweb.co.za/content/LPp6VMr45RevDKQz.

It is not surprising therefore that in his initial months at EOH, van Coller made extensive use of highly-regarded independent external agencies to gather and analyse information and to provide recommendations for which he could obtain board support, 'borrowing' the financial market credibility of those external agents to buttress his own power within the corporation and address shareholder worries. Van Coller brought in Rothschild investment bank to advise on corporate restructuring, the audit firm PwC to advise on establishing an internal audit function (and shortly after to take over as external auditors), and the Centre on Corporate Governance at the University of Stellenbosch to advise on improving governance. After Microsoft cancelled its partnership agreement in March 2019, he brought in ENSAfrica to do a new forensic investigation. Compared with the earlier review commissioned by Bohbot and Mayet in 2017, this was much expanded, including greater scope – it now included all EOH's public sector work – and greater depth – ENS were given full access to EOH's documents and email (GIBS, 2021). He also established for the first time a whistle-blowing mechanism in the company.

Hired to lead a corporate restructuring, within six months Van Coller found himself developing a corporate survival strategy together with Pydigadu and Newman. As reflected in its share price, EOH was in real danger of collapsing in the first half of 2019 after the Microsoft debacle, given the very onerous debt burden taken on in 2017, the inflated asset values and the strong possibility of further contract cancellations by suppliers and customers. This would have had serious implications for EOH employees and shareholders, of course, but also for the wider South African economy, given EOH's central role in the ICT systems of many large public and private sector organisations. Microsoft's action was of course extremely damaging to EOH, but it did give van Coller additional scope and power to act, enabling the immediate removal from the board of Bohbot (who was still board chair), and of Rob Sporen, who was insufficiently independent, as the public announcement of his departure made explicit. Over the next three or four months, the entire board was replaced, with the exception of one (genuinely) independent director appointed only in June 2018, but who found herself as interim chair less than a year later.

The three new senior executives shared the same values regarding corporate governance, and had trust in each other but in very few, if any, other employees in the corporation. Over the next few months, they developed a set of principles together with the newly-constructed board and recruited around a dozen executives from outside EOH. The senior executives had previously worked with some of their recruits directly, while others were recommended by colleagues in professional and business networks. All the new hires had corporate working experience. Some of the new people replaced departed executives as operational division heads, but most were hired to strengthen corporate functions, setting up systems and rules and professionalising management processes in the finance, legal, compliance and risk, internal audit, strategy and human resource functions. This group of new entrants to EOH appears to have developed into a cohesive informal network, and is recognised as such by other EOH staff, both those who worked at EOH before van Coller and those who joined after him.

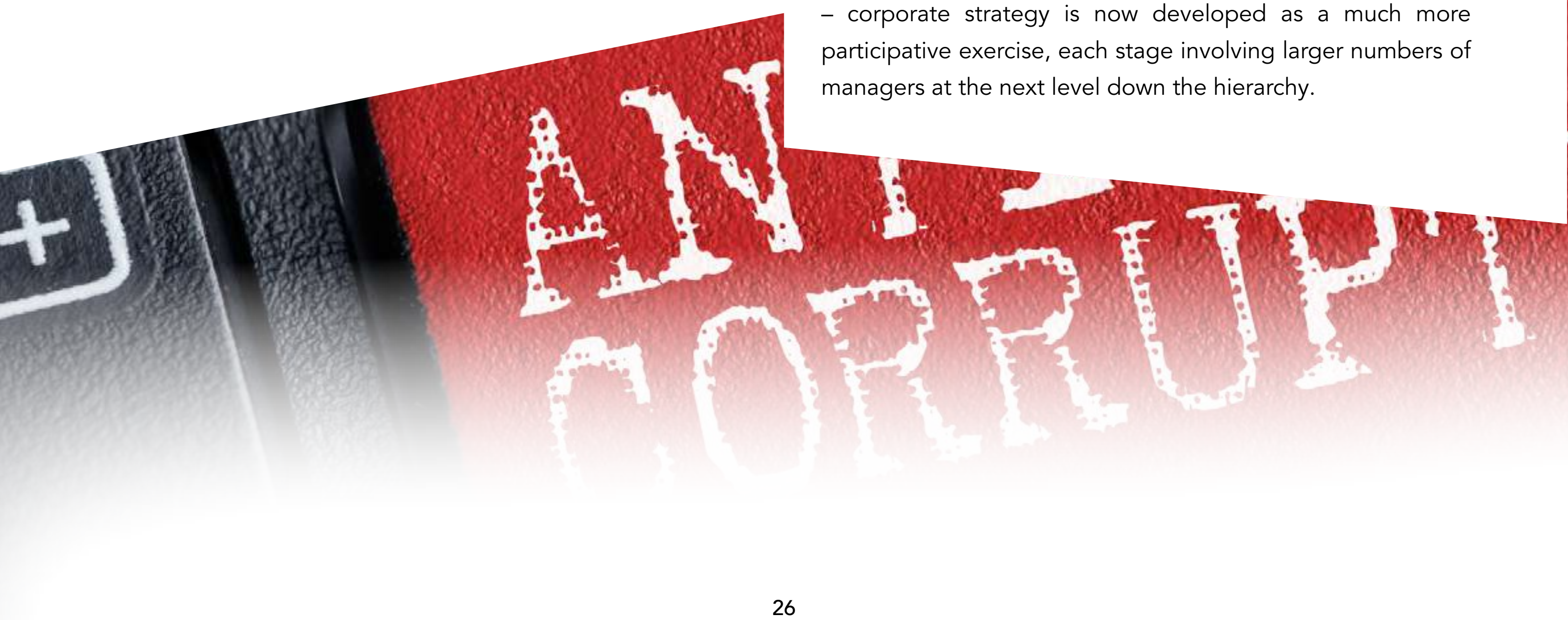
The creation of this network as a major power centre has been a key step in decisively centralising the distribution of power within the corporation enabling the breakup of existing informal fiefdoms within the company. Getting rid of the old leadership has of course been central. Within four months of the Microsoft issue emerging, Laher, Mackay as well as the rest of the existing executive management group, already removed from the board by the shareholders, were pushed out of the organisation entirely, together with the company secretary and the lone compliance officer. Many other resignations were enforced or encouraged: interviewees mentioned 80% of senior managers in one of the three divisions, 90% of the unit providing client support on one of the major software platforms, and 90% of finance directors. As noted, the four major actors in the corruption (Bohbot, Laher, Mackay and King, who died in October 2021) were sued for over ZAR1 billion each in June 2021, a total of ZAR6.4 billion. Employees who were less centrally involved were offered an amnesty in an effort to gather additional information about corrupt activities, but those who did not make use of that opportunity were reported to their professional bodies.

Aside from identifying those directly involved in the corruption, there has been a much broader process of changing personnel at the senior level across both the corporation and its operating divisions, which, together with the introduction of new formal rules within the company, has shifted informal networks substantially. It is worth noting though that despite the strong presence of women in the new executive team, our focus group discussions suggested that many women lower down in the organisation still do not feel heard or seen. By contrast, race (across all groupings) seemed – from our focus groups – to be less of an issue.

b. Formal rules and their enforcement

The new management under van Coller has completely restructured EOH's formal rules, partly modeling its framework on the principles of the US Foreign Corrupt Practices Act, which was important to making the banks, the OEM partner network and corporate customers acknowledge the fundamentally new approach. Firstly, the corporation has been consolidated into three divisions, aiming to reduce the evidently over-complicated organisational structure involving an excessive number of 273 legal subsidiaries and about 900 budgeting units. This will enable more effective strategic planning while improving coherence amongst the products and services offered. A significant number of units were declared 'non-core' and sold, with the proceeds used to cut the outstanding bank debt, which was a major priority in restoring the company back to health.

The organisational restructuring has been accompanied by explicit efforts (disrupted by the pandemic) to overcome the fragmentation of business units, a key feature of the 'old' EOH which facilitated corruption. Using new formal rules to drive changes in informal networks, the aim has been to strengthen linkages and create new partnerships across units within the same division, to encourage cooperation in winning business and delivering on contracts, while at the same time boosting innovation. For example, the previously separate and competing units supporting the SAP and Oracle business software platforms have been brought together into a single 'enterprise applications' unit. In an intentional contrast with the previous management's approach to strategy – a 'black box' dictated from the top and apparently changed on whim – corporate strategy is now developed as a much more participative exercise, each stage involving larger numbers of managers at the next level down the hierarchy.



This has also helped to build a 'coalition for change', identifying potential 'early movers' amongst existing staff, employees who have recognised the value of organisational restructuring and a new identity for the corporation. Stronger integration across business units should also align the personal ambitions and career aspirations of more junior staff with the corporation's own goals, since promotions are more feasible in large divisions than in 'siloised' business units. Of course, some senior managers, especially amongst those with an independent entrepreneur background, have resisted change and attempted to re-assert control over their own team. Interestingly, some of these managers have been forced to recognise their dependence on the corporation, as their own unit's limited cashflow has meant they have had to ask for financial assistance to meet external difficulties such as tax bills or legal challenges.

A critical change in formal arrangements has been to shift the direct reporting line for all financial directors from their divisional or business unit heads to the Chief Financial Officer and her group team, which substantially limits the ability of managers to coerce or induce inappropriate behaviour by their finance directors, while also enhancing a sense of professional *esprit d'corps* amongst the latter.

Organisational restructuring to centralise power has been complemented by putting in place a number of sets of controls, rules and regulations, together with institutional and bureaucratic systems to implement and enforce them, that is, a set of 'top-down' measures to limit corruption, but which also provide management information essential for a large organisation. EOH is no longer a 'corner shop'. A governance roadmap was put together by Fatima Newman with seven pillars of governance strength, including ethical leadership and culture, strategy governance, governance structures and accountabilities, corporate citizenship, a risk compliance framework and transparency and disclosure. Each pillar in the roadmap had several items to be carried out, a total of 71 altogether, coded red, amber, or green depending on progress in each. In May 2019, 45 of the 71 were red and 20 yellow, with only 6 green. By October 2020, this had changed to only one red and 23 yellow, with 47 now green.[44]

Many of the new systems rely on extensive use of ICT, which is worth noting only because this was so remarkably lacking in EOH's previous management approach, notwithstanding the corporation's own skills in that arena. For example, newly-established processes such as internal audit and business bid reviews are digitalised, with all amounts above specified thresholds subject to review by higher-level committees, while information on smaller amounts is centralised and subject to random reviews. The expanded legal unit not only reviews contracts before they are signed, but also undertakes management of contracts while they are underway, reviewing performance against commitments, for both suppliers to EOH and EOH's provision of services to customers. Rigorous due diligence on subcontractors, suppliers and customers has been standardised. All of this has helped to inculcate a strong understanding of conflict of interest amongst employees, which the new executive management team see as totally absent from the organisation in the past.

[44] See GIBS (2021) for May 2019, and documents provided by EOH to our project for October 2020.

The composition of group-level finance, operational and governance committees has been formalised, with their respective meeting schedules and minute-taking and reporting responsibilities spelled out in a 'governance reporting cadence' document defining the information flow from these committees through executive management to the board of directors. The shift of reporting lines for financial directors was mentioned above, and this has been accompanied by standardised accounting practices across the corporation, with very strict IFRS-linked adherence on difficult issues such as valuation of intangible assets and goodwill. A tax department was set up for the first time. The centralisation of financial management has been crucial for the corporation to address its debt situation, for example allowing the application at business unit level of the requirement that cash flow cover costs, which in turn supported greater conformity amongst some overly independent senior managers.

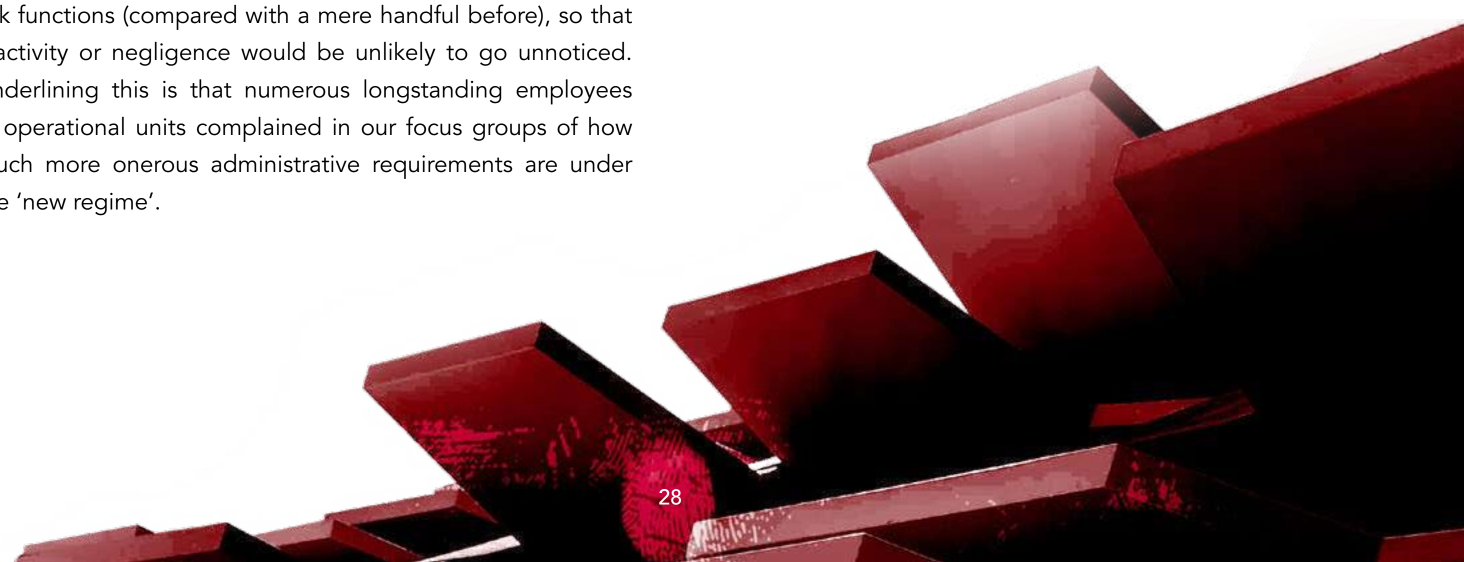
The human resource function has seen the introduction of standardised employment contracts across the organisation, including grading and remuneration systems, with bonuses linked to the performance of clusters rather than individual business units, with performance measured via cash flow rather than booked or projected profits or revenues. A mandatory online training programme in ethics and prevention of corruption has been introduced. Several executives emphasised that no employee can receive a bonus until they have completed the compliance training, which is linked to individual employees' KPIs.

Changing formal rules is not merely a matter of introducing a series of new systems 'on paper', and it is reasonable to ask whether the new rules and requirements are being enforced. One indication that monitoring and enforcement is happening, is that there are now over 60 people employed in the finance function at group level (over and above finance staff at unit level) as well as 50 people in legal, compliance and risk functions (compared with a mere handful before), so that inactivity or negligence would be unlikely to go unnoticed. Underlining this is that numerous longstanding employees in operational units complained in our focus groups of how much more onerous administrative requirements are under the 'new regime'.

c. Corporate culture

There is a clear recognition on the part of the new leadership at EOH that a changed organisational culture is central to the corporation surviving and moving onto a new path. As one executive director put it to us, "you can have all the policies [you want], but you need the hearts". And another asked: "how do you address from an organisation's perspective the behavioural economics view that everyone has their price, everyone is corruptible?" That person answered their own question by pointing out that "it comes back to how power is defined in the organisation". This recognises that corporations are inherently hierarchical in terms of the distribution of power, but the aim of the new management is to shift EOH from a rigidly authoritarian structure to one in which there is more of a balance between centralisation of power and its decentralisation, and between compulsion and consent. And it recognised that cultural change is part of that process, so that rather than simply a matter of writing down a new set of norms, values and ethics and inculcating these into individual employees through training and repetition, cultural change is both shaped by, and itself shapes, the structures within the organisation which connect individuals in different ways.

In the case of EOH, far-reaching cultural change has had to take place under severe pressure, linked firstly to the corporation's precarious financial situation and the necessity to prioritise financial performance, and secondly to the onset of the covid pandemic about a year into the process, imposing remote working on staff and ruling out in-person interactions. It is fair to say that the transformation of EOH's culture remains a work in progress.



One way to examine what has been done at EOH is using the lens of one of many corporate culture 'frameworks' developed in the business literature, the very widely used approach of Hofstede (1990) already referred to.[45] His framework identifies six dimensions of organisational culture, each with two poles reflecting opposing characteristics, with any particular corporation situated somewhere along the spectrum between the poles of each dimension. The six dimensions are:

(i) measures of organisational success defined by ends or defined by means (or outcomes versus process);
(ii) management attitudes towards employees oriented towards job performance or towards peoples' well-being;
(iii) employees' identities defined by parochialism (that is, their membership of the corporation itself) or defined by professionalism (that is, their membership of a wider peer group based on skill and expertise);
(iv) internal communication and information flows based on closed systems or on open systems;
(v) internal behaviour and cost controls structured loosely or structured tightly; and
(vi) market interactions (with customers, suppliers and competitors) reflecting pragmatic and flexible attitudes or resting on normative (rules-based) approaches.

As spelled out in this list, the first characteristic of the couplet within each dimension reflects our judgement of where EOH fitted under the 'old' (Bohbot) leadership, based on employee comments in focus groups, as well as careful reading of historical media reports and corporate documents in the public domain.[46] The elaboration of a new corporate culture has involved much more than simply shifting towards the opposite pole of each dimension, the latter characteristic in each couplet. Rather, in line with the dynamic, power-based understanding of corporate culture (articulated by Schoenberger), we would argue that the new leadership has used corporate power, often ruthlessly, to redefine the content of each dimension, altering the meaning of the poles to re-purpose the dimension and so transform EOH's organisational identity. Although Hofstede argues that these six dimensions are mutually independent and can be found in any combination, analysing a particular organisation *and the transformation of its culture* suggests that the evolution of the various dimensions is not a set of independent processes – shifts in one dimension constrain the possibilities for change in the others.[47]

To spell out how this applies to EOH, organisational success (dimension (i) above) in the old regime had been measured in terms of financial outcomes, that is, the rise in the share price and growth of the revenue base, rather than process. Under the new management, a relentless focus on financial performance has continued, but with financial health re-defined in terms of solvency and liquidity. The focus is on cashflow and on reducing liabilities, in particular bank debt, with a smaller asset base but one represented more authentically, in terms of accounting standards on goodwill and intangible assets. Furthermore, process is itself now seen as part of outcomes, in other words, demonstrably improved business processes support the credibility of the argument – that EOH is cleaning up its act and is on a new path – which must be made to capital providers if financial health is to improve.

Following directly from this, market interactions (dimension (vi) above) have shifted strongly away from a pragmatic attitude towards a normative one, that is, to the rigorous application of ethical standards, with securing contracts and financial criteria becoming secondary considerations. This was inevitable following Microsoft's withdrawal from its partnership and the tense negotiations to persuade other global software giants not to follow suit.

[45] See Hofstede et al., 1990; Hofstede et al. 2010; and Hofstede, 2012.

[46] Ideally, a detailed employee survey would provide a more precise data-based characterisation of an organisation. Although originally planned in this project, this was not possible due to funding constraints.

[47] See Schoenberger's (1997) argument that strategy and culture are not independent but mutually constitutive.

Legitimating the shifts in both dimensions amongst employees has depended in part on creating a new sense of identity amongst the latter, that is, addressing the professional versus parochial dimension ((iii) above). There was a need to motivate staff to behave more in line with professional ethics, while at the same time changing the *content* of parochialism, to create a sense of pride in the corporation, essential to avoid a rush by employees for the exit. Critical here has been the presentation of EOH's anti-corruption strategy as a 'mission', not simply to save EOH and its jobs, but to make the company a corporate leader in the national movement against corruption which was itself revitalised in 2018 when Cyril Ramaphosa took over South Africa's presidency from Jacob Zuma. In focus groups and interviews, people referred with pride to their role in EOH's transformation being part of their contribution as citizens to cleaning up the country. This contrasted with the shame by association many had felt as EOH employees when there was extensive publicity of the corporation's corruption problems, especially after Microsoft's action. One focus group participant mentioned their reluctance to pick up their own name tag at external events to avoid being identified as an EOH employee. The sense of mission, of being part of a wider social process, not only transformed the meaning of 'parochialism', but also closed the distance between the two poles of the market interaction dimension, linking customer/supplier orientation more tightly with ethical (rules-based) market behaviour.

Framing anti-corruption as a 'mission' linked naturally to a shift in the dimension of communications and information flow (dimension (iv) above), from a closed system towards greater openness. Transparency and inclusivity are important in promoting greater accountability and helping safeguard against inappropriate use of power by ongoing or newly-emerging fiefdoms or cliques. But internal transparency is also linked to what we call 'proactive transparency' which is at the heart of EOH's strategy towards engaging with its external environment, as discussed below. A consistent message is needed across the internal and external spheres to avoid employees learning about decisions and events from outside media rather than from management. The new executive has instituted regular 'water cooler' or 'town hall' sessions for the staff, providing opportunities to raise questions directly with van Coller and other senior executives. There has been a significant increase in internal written communications, including newsletters and frequent communiques, although many focus group participants indicated they are often unread. Regular meetings between divisional managers and groups of subordinates were (astonishingly) not common but are now. The participative process of strategy development has already been mentioned, as has the whistle-blower mechanism designed by EOH's own software engineers, which has been made available commercially to other organisations. The increase in vertical communication internally aims to counter what the new management had identified as low self-esteem amongst lower-level staff resulting from bullying and fear of speaking out, and to encourage a more critical and questioning approach. It is complemented by explicit efforts to facilitate more horizontal communication, to support cooperation and innovation.

As already described, internal controls and expectations of behaviour (dimension (v) above) have been tightened up considerably, through the introduction of new systems in several functions, including customer relations, human resources, and finance, aiming to institutionalise and enforce depersonalised, rule-based, and consistent decision-making. Whereas power linked to executive authority was used previously to facilitate a loose controls regime providing space for corrupt activities, the new leadership is using its power to impose tight controls to support the restoration of financial health. There has been a shift from what was presented as an 'entrepreneurial culture' involving independent action for personal reward but with little personal accountability because financial risk was transferred to the corporation, to a more conventional corporate approach based on internal incentives for personal reward, with the case for risk-bearing action made to internal decisionmakers.

Along the sixth and last dimension, management attitudes towards employees (item (ii) in the list above), EOH continues to prioritise 'getting the job done' as before, though now with a different justification: it is essential for corporate survival. In the early months of the covid pandemic, management decided to cut salaries (and working time) by 20 percent, as a temporary measure, applicable only to employees earning above a threshold of ZAR250 000 (about USD13500 at the time). This was justified to employees as financially essential in the context of restricting expenditure and maintaining cashflow, given the disruption of existing contract delivery and uncertainty about the future. The cuts were in place for only two months in the end. Most focus group participants (speaking 12 to 15 months later) accepted their necessity, acknowledging that the top executives had taken even larger percentage cuts. In the event, the cuts had to be kept in place for only two months.

There were many complaints in the focus groups about increased work pressures, longer hours, and burdensome administrative loads because of the shift to more extensive and tighter controls. But employees also acknowledged a shift in the balance between job performance and employee wellbeing. For some employees, the change in top management in and of itself reflected greater concern for employee wellbeing, as they felt a strong sense of relief at the departures of previous executives and an end to bullying. The covid pandemic has of course particularly impacted upon issues of wellbeing, and an example often mentioned was management support for 'duvet days' (additional time off). Nonetheless, there is some way to go in this respect, as some staff also suggested there was demoralisation and alienation amongst some employees and complained of the unfairness of lower-level employees not getting salary increases while executive directors were awarded bonuses. Even though the executive team has introduced a standardised grading and remuneration system across the corporation, as noted above, some staff expressed anxiety in our focus groups that EOH was increasingly unable to pay competitive salaries relative to market competitors. They indicated this was leading to resignations, with some suggesting that the skills and experience outflow could reach a tipping point which then threatened the corporation's future competitiveness.

d. EOH's external environment

The fourth and last element of EOH's anti-corruption strategy has been addressing its external environment, because future access to finance depended on the corporation repairing its reputation in the capital market. There are close linkages between the actions taken in this regard and those in the first three elements.

Firstly, there was a complete re-composition of the board of directors as well as the auditors, the two 'linking agents' facilitating accountability to key external stakeholders, as labelled in Section 2 above. By the end of 2019, all pre-2018 directors had been replaced, with the sole exception of one appointed at the very end of the Bohbot regime, after van Coller. This director served briefly as interim chair until a new permanent appointment was made in June 2019, three months after the Microsoft scandal broke and Bohbot departed. A conscious choice was made then to appoint someone with strong executive management experience in both public and private sectors, to help maintain EOH's presence in its public sector market. Sadly, the new chair unexpectedly passed away shortly after his appointment and was replaced by another newly-appointed independent non-executive director with a similar background. The external auditors were changed in December 2019: Mazars had done the job since 2011 but were replaced by PwC, who had initially been brought in to assist with constructing an internal audit function. The change in the auditors was a useful lever to legitimate changes to internal accounting practices, particularly around issues such as valuation of goodwill and intangible assets and treatment of accounts receivable.

Secondly, the executive directors adopted an approach which may be called 'proactive transparency' (our label, not theirs) to both customers and capital market stakeholders, and which paralleled the shifts in internal communications. On one hand, EOH itself approached organisations with a regulatory or financial stake in its situation to offer cooperation and information as part of negotiating deals over fines and sanctions. Aside from the Zondo Commission, this included a range of government agencies: the National Treasury (which has oversight of all public sector procurement activities), the South African Revenue Services (SARS) or tax authorities, the Special Investigating Unit (SIU) which is the government's forensic crime agency, the State Information Technology Agency (SITA), the Financial Sector Conduct Authority (FSCA), the Hawks and the Financial Intelligence Centre.[48]

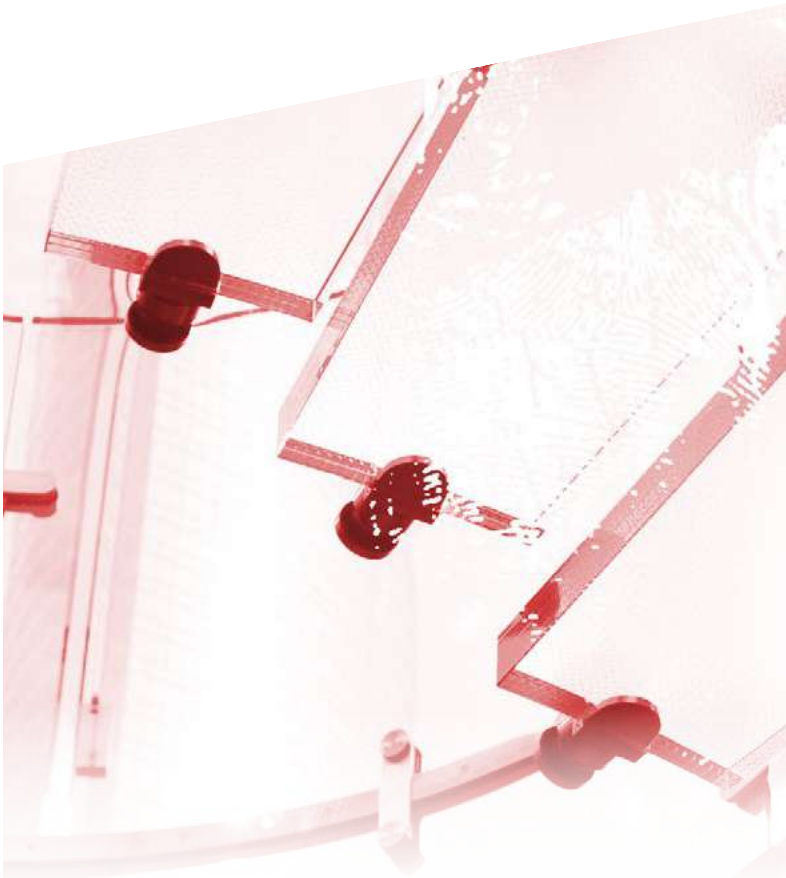
EOH also approached private sector regulatory agencies, the capital market regulators in South Africa and the US – the Johannesburg Stock Exchange (JSE) and the (statutory) Securities and Exchange Commission (SEC) (which had been informed of the Microsoft-EOH deals by the whistle-blower), the Independent Regulatory Board for Auditors (IRBA), the South African Institute for Chartered Accountants (SAICA), and the Institute of Directors (IOD). They had extensive dealings with EOH's suppliers (global software companies) and financiers, including its consortium of bank lenders. And they engaged with customers, both private corporations and public sector entities: Fatima Newman estimated that she and van Coller spoke with as many as 200 of the latter (GIBS, 2021).

On the other hand, EOH has also pursued 'proactive transparency' in the wider financial public domain, publicising its internal clean-up, motivated by a mantra of "transparency, credibility, liquidity", as one executive manager expressed it. Over and above the lengthy and well-publicised appearances in November 2020 by Stephen van Coller and the independent forensic investigator from ENS at the Zondo Commission, detailed information about the problems of the old regime and the changes made to address them has been provided through direct communiques with shareholders and customers and through numerous media interviews and op-ed pieces.

EOH publicly announced in June 2021 that it had instituted litigation and criminal proceedings against the four key figures in the old management.

As reported in the company's 2022 annual accounts, corruptly acquired payments from government departments have been repaid to the National Treasury and the SIU, the last of these being the announcement in November 2022 that EOH would pay ZAR177 million over four years after an SIU investigation of the Department of Water and Sanitation fraud. This followed a ZAR40 million repayment to the SIU linked to overpricing of Department of Defence software licences.[49]

In July 2020, the JSE fined the company ZAR5 million (USD 300 000) for publishing inaccurate financial accounts in 2017 and 2018. Although a relatively small fine, this led to some bitterness from the new management, since not only had the misreporting happened before it took over, but it was the new management itself which informed the JSE of the problem and encouraged its investigation.[50]



[48] EOH's October 2019 Annual Results presentation mentioned five government agencies already approached – National Treasury, SARS, Hawks, FIC, and SITA – as well as the JSE and SAICA. See https://www.eoh.co.za/wp-content/uploads/2019/10/EOH-FY-2019_15-October-2019-_EXECUTION.pdf.

[49] See Mudiwa Gavaza, EOH says R177m settlement will not be a shock to its balance sheet, Business Day, 13 November 2022 https://www.businesslive.co.za/bd/companies/telecoms-and-technology/2022-11-13-eoh- says-r177m-settlement-will-not-be-a-shock-to-its-balance-sheet/.

[50] Stephen van Coller, Hobson's choice for EOH, Business Day 29 July 2020. An additional ZAR2.5 million fine was suspended. See https://www.businesslive.co.za/bd/opinion/letters/2020-07-29-letter-hobsons-choice-for-eoh/

Also lamented by EOH's current management, and indeed remarkable, is how little action there has been from either public or private regulators towards the individuals involved in corrupt activities, or those who by omission enabled them. The JSE – both market operator and market regulator, unlike the SEC in the US – fined EOH for inaccurate accounts in 2017 and 2018 but did not itself look at EOH more closely in those years, despite the concerns expressed publicly at the time about the company and the sudden drops in its share price. Had the JSE done so, it would have found many problems with how EOH was meeting JSE-prescribed governance standards, including highly inadequate internal audit or compliance functions, faulty executive committee and board processes, and the lack of concern of independent directors regarding the rapid rise of EOH's share price. When EOH sued Bohbot, King, Laher and Jehan Mackay in June 2021, an editorial in Business Day (South Africa's major business daily) suggested that the JSE should itself have gone after these individuals.[51] Yet it seems there has been no action towards them or others – inside or outside EOH – involved in corruption at EOH from any of the twelve regulatory agencies with which the current management has engaged. This reflects a major problem with corporate regulation and oversight in the South African context, which we discuss in the conclusion.

[51] See Editorial, Shareholders suffer for past misdeeds of previous EOH execs, Business Day, 2 July 2021 https://www.businesslive.co.za/bd/opinion/editorials/2021-07-02-editorial- shareholders-suffer-for-eoh-misdeeds/

SECTION 7

Conclusion

Following the announcement of the company's half-yearly results for the period to January 2023, Stephen van Coller said he now regarded EOH as a 'normal business'. In other words, the period of addressing corruption within EOH has, in his view, ended.[52] Firstly, over the period since the start of 2022, the business has restructured its balance sheet to make its debt liability more manageable on an ongoing basis.[53] This involved the sale of certain units (including profitable ones) to pay off a substantial portion of the debt (an estimated ZAR900 million), and renegotiation with its lenders to consolidate the remaining debt. As part of that renegotiation, EOH carried out a rights issue in January 2023 to further lower its debt to ZAR670 million, lowering interest payments and raising profits after tax and interest, moving the company closer to being able to invest again. The rights issue raised ZAR600 million via new shares, including ZAR100 million from Lebashe, its BEE shareholder, and ZAR500 million from other shareholders, of whom 91% exercised their rights to new shares, with the process being more than doubly oversubscribed. Secondly, in 2022 EOH agreed to terms with the SIU to pay off its outstanding settlement claims to the South African government, an amount of ZAR217 million as noted above. And thirdly, the company had experienced three successive six-month periods of small, but positive, profitability prior to financing and tax charges.

This success came at a cost: the EOH share price on the JSE at the end of March 2023 was ZAR1.70, down from ZAR6.84 at the beginning of 2022, and of course far below the price of ZAR19.50 at the time of the Microsoft scandal, not to mention its peak share price under Bohbot of ZAR178.24. Its market capitalisation today is about ZAR1.1 billion (about USD62 million), compared with the 2015 peak of around ZAR17 billion (over USD1.3 billion at the time). The 2022 decline of about 75 percent in the share price is partly because rights issues inevitably lead to share price declines, and the longer the lead time between the announcement of the issue and the actual issue, the greater the decline. In this case, EOH was forced by its lenders to announce the likelihood of the rights issue in January 2022, but the issue itself only happened in at the end of 2022. Of course, 2022 was a difficult year for ICT stocks globally, coming after the pandemic and the war in Ukraine, while South African corporations had also to deal with local shocks related to riots, floods and electricity outages. Despite the share price decline, van Coller in mid-2023 (nearly five years after taking over) feels that the company can in effect 'start again'.

[52] See https://www.businesslive.co.za/bd/companies/telecoms-and-technology/2023-04-05-watch-eoh-now-a-normal-business-says-ceo-stephen-van-coller/

[53] The debt was down to around ZAR2 billion by late 2020 but then proved difficult to cut further before the steps taken in 2022-23.

The role of Stephen van Coller in addressing corruption at EOH should not be underestimated.[54] The power of the CEO inside a corporation is very substantial indeed, as emphasised in our discussion in Section 2 of power in a corporation. With a different CEO, there is no guarantee that EOH's corruption problems would have been addressed in the same way: the company may have collapsed, or van Coller himself walked away, either of which would have been disastrous not just for EOH's employees but for the South African economy, given EOH's crucial role in the ICT infrastructure of both public and private sectors. Of course, van Coller came in after major shareholders insisted on a change of CEO, but it is fair to say he would probably not have been hired had the previous CEO, who played a primary role in hiring him, realised that they were getting someone with not only a willingness to undertake substantial organisational change, and as importantly, solid ethical integrity and a commitment to completing tasks he had undertaken.

But as we also noted in Section 2 above, power in a corporation takes two forms, not only formal but also informal, and so a CEO willing to lead an anti-corruption process inside a corporation is not sufficient. Also needed is a shift in how both formal and informal power are exercised within the corporation, which will in turn help to change the corporate culture.

This needs leadership from a CEO, together with their senior executive team. One of van Coller's key early actions was to rebuild his executive team, largely with people from outside EOH, whose first task was a complete re-write of the organisation's formal rules and their compliance mechanisms. This new team also was crucial to re-shaping the company's informal power structure, and so contributed to the change in culture. As our discussion noted, the relentless focus of the previous management on EOH's financial performance has been maintained, but with a crucial shift, in that its aim has not been simply to drive the share price upwards, but to enable the repayment of its massive debt and hence its survival. Allied to the financial performance, though, was the new team's very different stance towards EOH's employees, embodied for example in the drive to eliminate bullying and intimidation and the emphasis on participative planning processes involving all employees, both of which promote a more questioning stance on the part of staff.

[54] It should be noted that there has been some public criticism of van Coller's performance. See for example the anonymous articles in Daily Investor, EOH a "dead man walking", 12 November 2022 https://dailyinvestor.com/technology/5288/eoh-a-dead-man-walking/ (which identifies two investment analysts); and Daily Investor, EOH CEO Stephen van Coller must show gains after the pain, 2 January 2023 https://dailyinvestor.com/technology/6460/eoh-ceo-stephen-van-collers-performance-analysed/ . In analysing van Coller's performance, these articles use as a basis the revenue, net profit, cash generated and EBITDA numbers from the 2018 accounts published under the (old) Bohbot management. The inflated figures in those accounts were re-calculated and re-published in 2019 by the new management, but for whatever reason the new figures, providing a different perspective on EOH's record and van Coller's performance, were not used by the Daily Investor.

EOH was lucky to have van Coller in place as CEO before it became clear how deep corruption in the organisation had gone. But from the perspective of regulating remedial actions in corporations found to be corrupt, a more considered approach is needed than is currently available in South Africa. The EOH case study has emphasised the overly-permissive approach of the JSE and other regulatory bodies, which allowed the corporation to experience unlimited growth and become systemically important in the national ICT system, despite a questionable business model and a compliance approach enabling fraudulent behaviour. However, the JSE's rather limp intervention towards EOH itself has to date been the only public action taken by capital market or other business regulators in relation to the EOH case. In a system of voluntary self-regulation like corporate South Africa's, there is no way to adequately assess corporate reporting beyond their audited financial accounts (Corruption Watch et al., 2020). The JSE does not itself scrutinise listed corporations, which might have picked up problems at EOH (or other corporate miscreants like Steinhoff). Nor does the JSE act to improve the performance, on governance and corruption issues at least, of stock analysts and business and financial journalists who, with a few notable exceptions, maintained an overly-optimistic view of EOH well past the point when a much closer look was warranted.

It is certainly worth looking at far more rigorous monitoring systems along the lines of the Reform Undertaking approach introduced by the SEC and the US Department of Justice in the early 2000s in response to transgressions of the Foreign Corrupt Practices Act, which involve an independent auditor reporting directly to the market regulator on the corporation's progress in meeting the commitments agreed as part of the corruption sanctioning process (Hess and Ford 2008). The logic behind the SEC's monitoring approach is that failures of corporate culture lead to the transgressions in the first place so that fines, even heavy ones, and/or scapegoating of individual employees will have very little impact on addressing these. So, in addition to fines, corporations found guilty of corruption have to agree to a series of remedial actions they will undertake to address corruption, which are specific to the corporation, as the approach recognises that corporations are heterogeneous. These actions are not subject to voluntary self-regulation ('cosmetic compliance'), which may be regarded by some as adequate when the CEO is not him/herself involved in the corruption, but rather involve checks by an independent auditor not responsible to the corporation, in a similar way to financial accounts and increasingly labour, social and environment practices. Without an independent auditor with appropriate powers, it is hard to see what can be done to restrict corruption elsewhere in the corporation. Of course, independence is no guarantee of an adequate audit, and auditing organisations would need a clear understanding of how corruption happens inside corporations, going beyond ideas about 'bad apples' and reliance on formal rules to ensure changes in informal networks and practices and corporate culture. A key difference between the US and South Africa is that market regulators in the former (the SEC and the Department of Justice) are institutionally separate from market operators like the stock exchanges, while in South Africa, the JSE provides both functions.

An independent audit is complementary to sanctions on people found to have been involved in corruption. But in the EOH case, there has been no action towards individuals involved, by any of the several regulatory bodies which the new management approached with detailed and relevant information. Not by the Independent Regulatory Board for Auditors (IRBA) with regard to the previous auditors, notwithstanding the problems in the audited accounts, nor by SAICA or the CFO Society (the professional bodies) towards the external auditors or the financial directors inside EOH. Similarly, nothing from the Institute of Directors. There has there been no (public) action from the banks or banking regulators regarding bank officials across several banks who advanced a very large loan to the company in early 2017 without undertaking adequate due diligence, at a time when concerns about the corporation were beginning to emerge into the public domain. And of course, no prosecutions have been instigated by the law enforcement authorities. It is fair to say that EOH executives are less than happy about this lack of action by regulators towards individuals. It has been left to EOH itself to become a *de facto* leader in the corporate sector's anti-corruption campaign in South Africa, going beyond suing their former executives, to engaging with policymakers and the wider public in large South African corporations and international public and private sector organisations. Though this fitted in with EOH's own 'proactive transparency' approach to external engagement, the EOH case should be provoking South Africa's business leadership to a careful reconsideration of limited corporate oversight in the economy, as they continue the fight against corruption.

Finally, our paper also shows the value of a case study approach to corporate analysis, whether looking at corruption or at more constructive dimensions of corporate behaviour. As recognised in the Reform Undertaking approach and shown in this paper, corporations are heterogeneous. Without a detailed and effective look at the 'bottom-up' features of informal networks and their impact upon corporate culture, which help to shape power inside the corporation, it is very difficult to understand behaviour across the organisation, let alone to shift it. The EOH case underlines the value of combining the 'top-down' approach to the preventing corruption in and by corporations, emphasising the 'rule of law' both inside and outside the corporation – stronger formal rules and more assiduous monitoring by agencies in the external environment – with a 'bottom-up' approach shaping how formal rules are understood and complied with internally. In the past, EOH had very powerful informal networks resting on substantial autonomy and limited accountability, that is, a facilitative corporate culture which incentivised a narrow set of performance targets and legitimised coercion across the organisation. As a result, turning the company around required integrated actions across all four elements: formal rules, informal networks, corporate culture and the external environment.

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