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# African Governance Showcase 2018

An Internal Control Dilemma at SheyS360  
(A Zimbabwean SME)



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## Introduction

Although both large and small entities have a control environment, the nature of this environment tends to differ. One cannot discuss the control environment without discussing risk; as a lacklustre control environment contributes to risk. Furthermore, the control environment cannot be separated from strategy, as the executable plans of an organisation could enhance or alternatively mar the control environment. The integrated nature of addressing the control environment makes this a complex corporate governance function which if not handled well could lead to the demise of a firm.

## The Problem

Sheillah Chikomo (Shey) undertook a postgraduate course in corporate governance in 2017. When the topic of internal control was broached, she immediately dismissed it as not being applicable to her as she only ran a small enterprise. She also thought that this was going to be another lesson in audit, something which she as a business owner felt was better delegated to a specialist in the area rather than a part of her scope of duties. As the course wore on, seven elements of the control environment were introduced and she pondered over which, if any, were applicable to her small business. A resounding theme in the seven elements that were presented was the notion of 'transparency'. This for her was a paradox and counterintuitive as her entire business strategy was built around her ability to maintain some level of secrecy around her business and its operations. Could she be transparent and successfully strategic simultaneously without compromising her control environment?

## Contextual Background

It was the year 2014. As Shey walked around the Monash Malaysia Sunway Campus she was overcome by a wave of inspiration. All around her she saw campus shops which seemed to thrive and all had one thing in common; the youth of their owners. She knew she could do the same back home in Zimbabwe on her return- establish an enterprise that is successful and serving a purpose in the community. The timing could not have been better with the government opening up opportunities for youth ownership of land at the time.

As she evaluated her resources, she was able to find comfort in a few things;

- she had a natural talent and interest in cooking and so a restaurant would be a good idea;
- she had prior business experience, albeit on a small scale, selling muffins at the Monash South Africa Campus and residences before she travelled to Malaysia and eventually getting into catering as well;
- she had start-up capital of R200,000 which was accumulated through her initial muffin venture and temporary campus jobs she secured as a tutor;
- she was heading to South Africa for further studies and this would give her access to cheaper stock for her business which she could transport to Zimbabwe given the shortages at the time; and
- she had some material support from her parents with a portion of farm land to grow some produce to use in the restaurant and a kraal to maintain livestock to use in the restaurant as well.

Shey made it clear that although she appreciated the family support, her restaurant was not going to be a family business. She wanted to run it by herself and would only seek a partner for strategic expansion purposes.

With the help of a consulting firm, Shey registered her business and obtained the relevant licences to operate. She got really lucky with the land that she had secured and which had been previously owned by the post office in the Triangle. She was able to build her restaurant opposite a serene parkland affectionately called 'garden of love'. The restaurant was also close to the banking precinct. This brought in decent traffic to the restaurant.

Apart from the convenience of the location, the local community was drawn to this booming business because it was run by a very young entrepreneur. They were also attracted to the blend of Malaysian cuisine which was infused into the meal offerings. At an average price of US\$2.50, the meals were much cheaper than those at the Country Club (regarded the closest competitor) which were an average of US\$10. The Flea Market, although offering cheaper meals at US\$1, was not regarded comparable due to the lower standards of hygiene.

Shey felt targeted by some of the various regulatory authorities she had to pay fees to. She felt that because she was perceived as a highly profitable entity, some of the fees that landed on her desk were at best exuberant and at worst unwarranted. With the state of the Zimbabwean economy at the time, her feelings were not far-fetched.

The restaurant was a small 20 seater. With an increasing number of customers, emphasis was given to the takeaway side of the operation.

Shey, perhaps because of her youth and flat management structure, had a more liberal approach to taking and managing business risk which was evident in her starting up multiple entities simultaneously as a serial entrepreneur. These entities were markedly different with activities in fast food restaurant, retail clothing and a hair salon. Future, who she employed as a manager of all these entities was more conservative, wanting to establish and grow the entities one after the other.

Shey believed she could handle it with little professional personnel support. After all, she had a well-rounded education in business management with undergraduate, honours and masters level qualifications to show for it.

## The Restaurant Operations

The restaurant was successfully launched with a roadshow. Shey recruited four women to cook and serve; one of whom was also a supervisor, one man as a security guard and Future to oversee the management. The supervisor was selected through a secret ballot by all the employees. Shey deliberately recruited middle aged individuals that were disadvantaged in the community. Her focus was on women who were widowed and undereducated. She felt a call to empower this sector of the community. She earned their loyalty by providing assistance for their school going children provided that they served in her business for at least three years. She also enticed them with the prospect of them becoming managers in other branches as she expanded her operations.

She personally trained her staff and gave them certificates of recognition on completion of their training. She found that they developed their self-esteem emanating from the pride in having certified training, the respect they felt from their managers and the pride they felt in their uniforms which confirmed to their society that they were in employment. Shey added to this by offering them free hair treatments and personal hygiene kits on a monthly basis.

Employee involvement was crucial to Shey's philosophy of governing her business. She introduced an internal suggestion box through which employees could voice their opinions on all aspects of the business without fear. Shey believed that by getting the workers involved, they would be motivated to consistently act in the best interest of the business.

For further employee buy-in, she introduced a reward system. By setting a target of selling 80 plates of food a day, Shey paid a straight wage of US\$3 a day and a bonus in excess of the target. This created a culture of self-policing which averted the problems of stock pilferage often associated with the restaurant business.

The restaurant was designed to have glass walls and this introduced a further element of transparency. The purpose was initially to promote the restaurant's reputation for smartness to its clients. An unintended consequence was that it made the employees mind themselves and each other as they had a sense of always being watched.

Additionally important as a governance mechanism in the restaurant was an element of spirituality which created an impression of the business being somewhat sacrosanct. Christian memorabilia was placed around the restaurant to enforce this notion.

Beyond these operational manoeuvres, Shey did not see the need for a board of directors. She thought she would only entertain the idea in years to come when she was not so small a business anymore.

## The Seven Elements

Back to present day, the corporate governance lecturer summarised the seven elements of the control environment as follows:

### **ELEMENT 1 – COMMUNICATING AND ENFORCING INTEGRITY AND ETHICAL VALUES**

If honesty and integrity are promoted among employees daily, the risk of substantial misstatement in the financial statements of an organisation would be reduced.

### **ELEMENT 2 – COMMITTING TO COMPETENCE**

If employees are expected to conduct work beyond their levels of competence then it is unlikely that the desired objectives of the organisation would be met.

### **ELEMENT 3 – PARTICIPATION OF THOSE IN GOVERNANCE ROLES**

The extent of the active involvement in the daily business of the organisation by those in governance has an influence on the internal control of the organisation.

### **ELEMENT 4 – PHILOSOPHY AND OPERATING STYLE OF MANAGEMENT**

The characteristics of managers are often embedded in their approach to risk, attitudes towards financial reporting and attitudes towards the functions of information processing and accounting.

### **ELEMENT 5 – STRUCTURE OF THE ORGANISATION**

It is generally anticipated there be a positive correlation between the size and complexity of an organisation's operations and the level of inherent risk.

### **ELEMENT 6 – ASSIGNING AUTHORITY AND RESPONSIBILITY**

Errors and oversights may occur where authority and responsibility are not assigned to individuals who are appropriately qualified and experienced.

### **ELEMENT 7 – POLICIES AND PRACTICES AROUND HUMAN RESOURCES**

If the policies and practices around human resources are considered to be sound then risk will be reduced.

## Conclusion

Shey concluded that there was much more to internal control than she earlier thought. Fundamentally, she regarded it as a bigger problem for her small enterprise which had her at the centre of all activity than if she were larger with scope for more professional delegation. Although Shey was making a profit, the operations were not without their challenges and she thought internal control may have a role:

1. The economic climate in Zimbabwe was characterised by shortages of essential commodities (which made the cost of stock high) and a liquidity crisis;
2. Importing stock from South Africa became necessary but was a logistical headache;
3. Electronic payment systems had to be implemented to navigate the liquidity problems but this increased the costs of operation;
4. Some government regulatory fees had been a hindrance to the growth of the business as Shey had been paying these even before the restaurant was fully fledged;
5. The complexity of the regulatory environment found Shey being behind on some payments and being issued orders of non-compliance which she was contesting.

## Reflections

1. With respect to element 1, Shey has used a number of artefacts to communicate her values and reverence for integrity. Could she and should she be doing more?
2. Shey deliberately goes out of her way to employ people who require training. With respect to elements 2 and 6, does this strategy outweigh the risk?
3. With respect to element 3, consider the merits and demerits of the following alternative courses of action for Shey:
  - a) Micromanaging her employees
  - b) Trusting her employees to carry out their defined duties with minimal interference
  - c) Adopting an arms-length approach to getting involved in operational tasks
  - d) Monitoring employee activity via receipt of formal narrative reports
  - e) Working alongside employees as a method of monitoring activities
4. Shey and Future agree on many things but have some divergent views with respect to element 4. How could these be reconciled?
5. With respect to element 5, how complex in your assessment is Shey's risk and what impact does this complexity or lack thereof have on your assessment of risk in this business?
6. In your opinion, with respect to element 7, what are the strengths and weaknesses of Shey's human resources policies and practices?
7. Which if any of the challenges stated in the conclusion are areas for internal control?

**Disclaimer:** This case study, written by Dr Natasha Katuta Mwila, placed joint third in the African Governance Showcase for 2018. The author of each case study is solely responsible for the content thereof. The publication of the case study shall not constitute or be deemed to constitute any representation by the IoDSA, IFC or SECO. The information contained in each case study is to be used only as a case study example for teaching purposes. The information in the case study is both factual and fictional. Opinions formulated by the author are those of the author solely. Copies of this case study may not be sold for commercial benefit.

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