

Read Stephen van Coller's extraordinary letter to EOH stakeholders

IT SERVICES By Staff Reporter 15 February 2019

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Stephen van Coller

EOH Holdings on Friday published an open letter to its stakeholders after its shares were pummelled this week following the news that Microsoft had terminated two partner agreements with its subsidiary, EOH Mthombo.

In the letter, Van Coller addresses a wide range of investor concerns about the IT services group. Read the full letter below. (Also read: Law firm to assist EOH in channel partner unit probe)

Dear valued stakeholder,
A new dawn at EOH

I am writing this letter both as CEO of EOH Group and from a personal perspective. I joined EOH on the 1 September 2018 at the request of the chairman and founder of EOH Asher Bohbot as he, together with the board, realised that the EOH Group had grown too big to be managed as a conglomerate of over 270 entrepreneurial legal entities with approximately 11 500 staff.

I was specifically asked to come and professionalise and strengthen the corporate layer of management in the organisation, as well as to take the new strategy,

announced in March 2018 forward. This strategy is centred on reconfiguring the group into distinct and independent businesses. The group is at an advanced stage of implementation, with the ultimate aim of achieving the following:

- A split of EOH into three distinct businesses and an investment holding company going forward, as follows;
ICT (EOH);
- Industrial technology (Nextec);
- Own IP (currently including Sybrin, Syntell, CCS, XDS);
- Robust governance including an independent board for each business as well as the investment holding company, providing greater levels of oversight;
- Reduced complexity, simplified business processes and optimal management span of control with clarity of brand identity and a focused business model for each; and
- Remuneration and incentives that directly relate to the independent business imperatives.

I have been asked to increase direct communication to our stakeholders and we have created this platform to do that. EOH is at a critical point in its evolution and I feel it is important that we keep you, our stakeholders in the know as we progress in this journey.

Relevant background and motivation

My 20-year background as a banker, seven of them as a CEO of a 12-country international corporate and investment bank, as well as my learnings through the 2009 banking crisis, were further deemed relevant to my role as EOH Group CEO, with specific reference to the negative press the organisation had been receiving. The most important part of this significant change required by the board was to retain employees and create job opportunities in this critical change period in South Africa.

What motivated me to join EOH was the opportunity to make a difference in working to minimise the potential job loss risk at EOH, coupled with the openness of the chairman and the board to support the changes required. In my heart, I am proudly South African and have been committed to job creation in South Africa for the last decade forming part of minister (Pravin) Gordhan's CEO initiative for a number of years. I also served on World Economic Forum committees for financial inclusion and Internet for all. Both of these committees are critically important for job creation and social equality locally and across the continent to create a sensible and sustainable future for our children.

Engaged ethical leadership

Over the past four months of my tenure, I have met most of the business leaders and a very large number of the staff. I can confirm that I overwhelmingly met mostly bright, motivated and passionate people of both genders and all races. They are the heart of the over 270 businesses that provide critically important services in South Africa and across many countries in Africa, Europe and Middle East.

We have a reinvigorated and enthusiastic corporate leadership who are working closely with me on the reorganisation of the EOH business. You are aware of the appointment of Megan Pydigadu as our new group financial director in January 2019.

Within the ICT business portfolio, we have recently refocused our public-sector business away from large projects towards an emphasis on strengthening

governance in this sector and on key strategic projects to drive annuity revenue, support the government and enhance service delivery in South Africa. In this regard, we are also pleased to announce the appointment of Lufuno Nevhuthalu as executive head for public sector. Lufuno is an important addition to our team, and I am convinced his vast experience and unique insights will go a long way in enabling EOH to continue building strong, sustainable partnerships in that sector. Within the three distinct business units we will continue to strengthen the leadership and governance structures and processes.

As outlined in my 100-day update to the market, there will also be some changes to the board and governance structures to align closer to King IV, and as part of recommendations from a report compiled for us by from the University of Stellenbosch Centre for Corporate Governance in Africa. Included in this process is driving organisational efficiencies and cleaning up our balance sheet in line with IFRS 9 and 15, as well as goodwill and intangibles post the strategic review. These changes come at a time when we are not only rebuilding EOH as a much better and stable IT company but are actively pursuing organic growth as we entrench our position as Africa's largest technology company, with ethical leadership as our core ethos.

Cleaning up the past

In my first 100 days at EOH, I have spent time understanding the reasons for the various allegations and negative sentiment from the past. In any large organisation of over 11 500 people, one must expect there to be challenges. In order to address these challenges, we partnered with one of the leading forensics and compliance experts in the country, Steven Powell, who, together with his team at ENSAfrica, conducted a number of investigations and helped us to implement various governance and compliance initiatives, which have yielded some positive developments.

With regards to the damaging Eskom Sens release on 28 January 2019, these were not new issues and they had been dealt with during 2018, with the assistance of ENS. Eskom subsequently released a clarification Sens on 31 January stating EOH had been cleared of any involvement in these allegations and that EOH continues to be a client of Eskom. I am happy to give you more detail should you require. The current Microsoft issue is unfortunate as they are the first of our partners and stakeholders who have issued a verdict without approaching us for representations. This is why I am personally involved and engaged with Microsoft.

- I understand how large organisations like Microsoft work, having worked in three large global organisations prior to EOH, and acknowledge the seriousness of their action;
- Together with Microsoft, EOH is working to better understand the concerns and rationale for their action;
- Following a recent and fruitful meeting with EOH and the Microsoft leadership, Microsoft has advised that it is taking our proposals under consideration and further review;
- The EOH Mthombo reseller agreements are strategically important to us. However, EOH will still be able to supply Microsoft products to our clients through resellers, should the current termination notice prevail.

EOH is proactively extending our own internal investigations, supported by ENS, into large licensing agreements in the public-sector space. Personally, I see speculation around these transactions as the fundamental issue driving the negative sentiment. Obtaining full clarity needs to be addressed urgently, in the

interest of all stakeholders. EOH will collaborate with any relevant authorities and stakeholder wherever necessary.

Future-proofing the business

My personal commitment is towards ensuring ethical leadership throughout the EOH group. In addition to the structural and leadership changes, we are well advanced in implementing the following imperatives.

ENS recently issued an ISO 37001 assessment report in terms of which we benchmarked the enhanced compliance programme against the six principles contained in ISO 37001 (the International standard for anti-bribery management standards). On this assessment, ENS confirmed that most of the associated initiatives are already completed and others are well progressed. EOH is committed to completing and maintaining this alignment to the ISO standards. ENS have helped EOH to enhance their supplier and customer due diligence procedures and the anti-corruption due diligences on all larger transactions is being outsourced to ENS to provide independent reports.

EOH has formed an internal audit function, which will be enabled through the appointment of PwC. This has been done to enhance internal governance in line with King IV by separating internal and external audit functions.

Later this month we are launching an anonymous whistle-blowing digital app into the market. The EOH group of companies will be the first users of the product. Any issues raised will be investigated by an independent law firm as part of the process. The app will be available as a free download to any individual for anonymous whistle-blowing on any registered entity.

I have personally committed to a zero-tolerance policy against corruption while we continue to uphold the highest levels of governance and ethical leadership in our business.

The EOH Group is committed to job creation, inclusiveness and social equality in the markets we operate. We are also passionate about completing our reorganisation in a manner that creates best-in-class governance and transparency, while retaining the entrepreneurial and innovative spirit that has made the group the most successful technology business in Africa.

EOH is committed to being a relevant force for good and I'll continue meeting with all stakeholders to drive open engagement. The board and management remain committed to delivering long-term, sustainable value to EOH's people, stakeholders, shareholders and partners, always guided by a common purpose, philosophy and value system.

You are welcome to contact me for clarification or any additional input you may require.

Warm regards,
Stephen van Coller