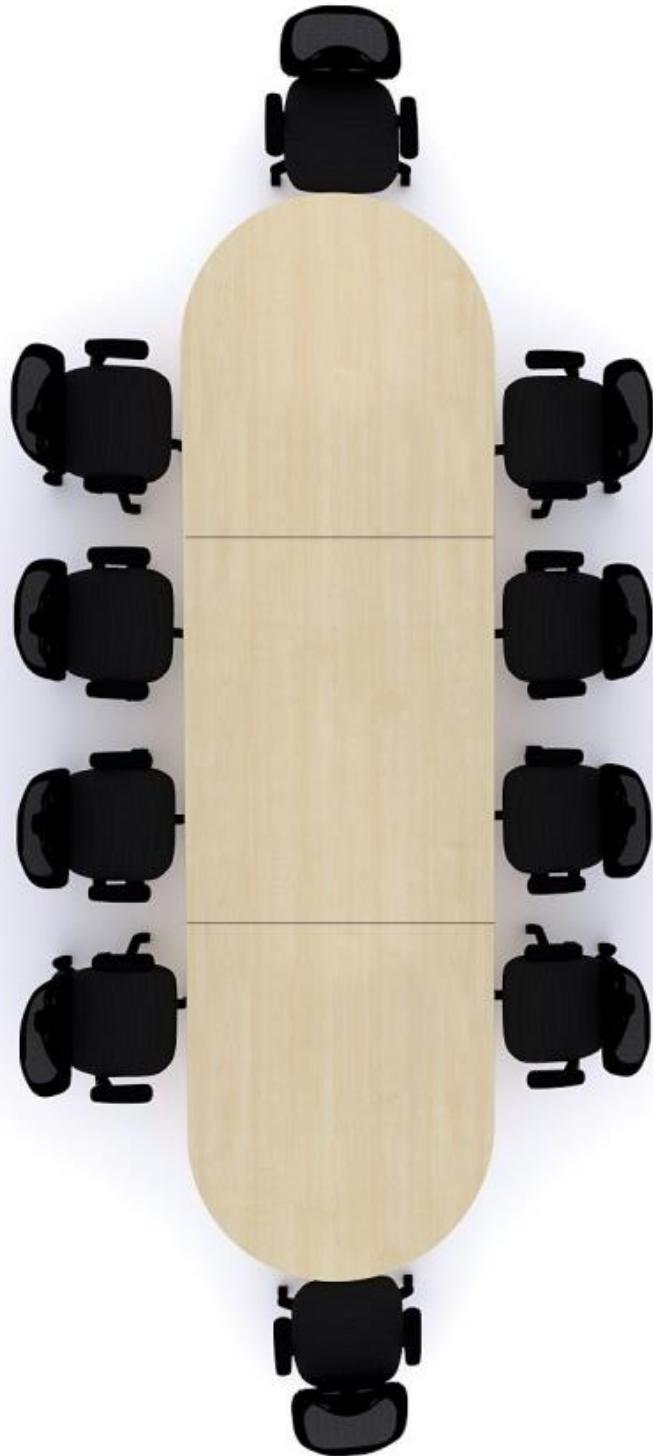


Getting Governance Right



So, what is the problem with Corporate Governance?

Many organisations fail to get to grips with corporate governance and understand how it might benefit them. As a result, it is dismissed as an expensive exercise that adds no value.

Often this is based on two presumptions:

'It doesn't really apply to our sort of organisation: it's just for big multinational companies.'

and/or

'It's just a matter of compliance – a necessary evil – so let's get it done as quickly and cheaply as possible.'

Organisations look at the cost of implementing all the recommendations and wonder if it is affordable; they rarely examine how they may use them to protect and even create value.

However, as we shall discuss below, it is certainly true that one size does not fit all and it is vital to work out what will work best for an organisation in its specific set of circumstances.

'It's not for the likes of us'

Headlines over the years about large company collapses and misdemeanours (Maxwell, Barings, Enron and more recently Co-op Bank, Tesco and BHS) may well have given the impression that corporate governance is designed to avert crises brought about by fraudulent management and incompetent or indolent directors, who ride rough-shod over regulation, take risky short-cuts in the interest of short term profits, play fast and loose with investors' money, reward themselves extravagantly and then cover up any malfeasance.

Indeed, such high-profile failures gave real impetus to the corporate governance movement, but poor governance can result in considerable value destruction that falls short of complete disaster. Good governance should not only expose illegal activities, but address issues of competence, controls, fairness, probity and sustainable performance.

While the origins of corporate governance may lie in the challenge of aligning management actions with investor intentions (the 'agency problem') and a lot of attention is still focused on this, effective governance is just as relevant to organisations which do not have [dispersed, distant, remote] shareholders (such as many SMEs, public sector bodies and charities): so they need to adopt / adapt best practice to suit their particular context, to ensure they perform well in the interests of their different stakeholders.

'It's just about compliance'

This can be a tempting point of view. It avoids having to think too carefully about the organisation's governance: it allows the topic to be delegated, reduced to a checklist of generic requirements. It also reinforces the impression that it is a cost to the organisation, to be minimised, rather than something with potential benefits which have to be worked out and captured.

From the earliest days of the Cadbury Code, it was emphasised that adherence to the letter of the code was not enough – companies needed to adopt its spirit. In other words, compliance is not enough. While the code was derived from best practice as seen in well-performing companies, just adopting the external symptoms of change will be no guarantee of better governance.

Corporate Governance often seen as...	Effective Governance <u>also means...</u>
Compliance with regulation and principles	Building performance and delivering sustainable results
Protecting the organisation by preventing / avoiding negative events	Focusing the organisation on achieving positive things
A one-way process, top-down from the Board	Multi-directional engagement of the whole organisation
A product of structure, processes and systems	Working on individual and group behaviours and organisational attitudes
Internally focused / internally driven	Connecting with stakeholders and the wider environment
A series of fixed contracts between the company and those it deals with	Recognising the evolving nature of relationships and interactive effects
Adopting generic best practice	Adapting / applying best practice to the organisation's specific circumstances

Real change requires organisations to engage with the issues and put in place the competences, behaviours, processes and systems to support it. It is difficult to legislate or regulate for every eventuality, so organisational culture and embedded values have a vital role to play in effective governance.

Organisations look at the cost of implementing all the recommendations and wonder if it is affordable; they rarely examine how they may use them to protect and even create value. As we shall discuss below, one size certainly does not fit all organisations and it is vital to work out what will work best in each specific case.

Governance fit for your purpose

The first step is to work out the purpose of governance for your organisation. It should not be regarded as a set of fixed contractual arrangements based just on legal obligation and regulatory requirement, but something which can respond to the complexity of the organisation, its evolving needs and priorities.

It is the job of the Board (whether directors, governors or trustees) to establish and maintain effective governance, so it needs to invest time in determining its approach, consulting across the organisation and outside as appropriate to work out:

- a) How it will:
 - o Set the direction, tone and values of the organisation
 - o Agree strategic programmes and manage risk
 - o Delegate authority and supervise/motivate management
 - o Ensure robust internal controls and transparency of information
 - o Account to the various stakeholders and engage with them
 - o Mobilise the organisation as a whole to achieve effective governance
 - o Ensure the governance framework remains relevant and useful
- b) How each activity will protect and / or create value for the organisation and its stakeholders. Where there is a compliance need, what value can this add to the organisation and how can this be delivered leanly?

As an intrinsic part of the process of determining the approach and designing the governance framework, the key enablers can be addressed:

- Building high performing teams, in particular the Board and the Executive
- Establishing the management structure, processes and systems to support governance
- Engaging and energising the organisation and its stakeholders

The final step is one of review that starts the cycle of continuous learning and adaptation that delivers sustainable results.

Further articles in this series will look at each of the three enablers, as well as special topics such as high performing boards, governance for organisations outside the FTSE 350 and 'lean compliance'.

BCL's approach to Effective Governance is built around the three core enabling elements, built into a programme designed with you to address your particular needs and tackle your real priorities.

