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BOARDROOM BEHAVIOUR

CIMA has launched a new report: 'Enterprise governance – restoring boardroom leadership'. Enterprise governance specialist Gillian Lees looks at some of the issues it contains – issues that are crucial to building healthy, sustainable companies.

After the failures in corporate governance that led to the global downturn, it's no surprise that we are demanding more of our corporate leaders than ever before. Stakeholders are rightly calling on boards and executive management to uphold the highest ethical standards and commit to the long-term sustainability of their businesses.

There has been much debate about how boards can oversee strategy and risk more effectively as this is where many feel they have fallen short. For example, commentators across the world have suggested that boards need to challenge management proposals more rigorously and spend more time debating the strategic risks that face the business. Current thinking emphasises the behavioural aspects of governance rather than seeking to impose new structures and regulations.

However, when we spoke to CIMA members who are directors in UK FTSE 350 companies, it became clear to us that, while behavioural issues are crucial, it was still important not to overlook the support that good frameworks, processes and structures could provide in driving behavioural change. There is some evidence, for example, that health and safety provisions are a powerful factor in this regard. The benefits of the new behaviours engendered by such requirements then spill over into other areas such as risk management, quality and customer satisfaction.

▶ INTEGRATING BOARD AND MANAGEMENT

The governance debate also focuses exclusively on what the board does. But at some point, governance and management have to integrate. At CIMA, we feel that managers need to have a clear understanding of the governance agenda so that they can understand

where the board is coming from and why directors need to ask awkward questions.

The problem here is that when we talk about effective collaboration between the board and management, it somehow implies a cosy relationship that is to the detriment of the shareholders or other owners. It's about a constructive but challenging relationship that has the long-term sustainability of the organisation as its goal. Boards and managers need to be keenly aware of the public interest dimension of what they do. That's why we emphasise ethics so strongly.

So what we try to do in this report is



bring together in a practical, integrated model what we consider to be the vital ingredients underpinning board effectiveness. The model looks at both people and behavioural issues such as ethical and professional behaviour as well as supporting frameworks, processes and structures such as information provision. The key is how all the components of the model work together.

► CREATING A CHALLENGE CULTURE

So, for example, to create a culture of constructive and effective challenge, there also needs to be an environment based on a shared ethical approach and mutual respect. The management team is likely to try to ignore a board if it feels undermined in a negative way – so missing out on all the skills and experience that the board could contribute. Another crucial

ingredient is high quality management information that provides a sound basis for the challenge process.

The creation of a supportive challenge culture has been widely seen as an essential step towards better governance. Some commentators have stated that a major cause of recent problems was the fact that many boards failed to ask tough questions. On the other hand, management teams have stood accused of controlling the flow of information and stage-managing meetings. But how do you actually achieve a good challenge process in practice?

We have all probably been in a situation where we felt reluctant to ask a question in case it made us look stupid. But we have probably also been in situations where decision-making was completely paralysed by participants determined to further their own agenda with a line of unhelpful and sometimes

destructive questions.

So the report places particular emphasis on creating a challenge culture. Another problematic area that also receives special attention in the report is the need for the board to be fully risk aware. In other words, boards need to understand risk fully, integrate it into strategic thinking and demonstrate a rigorous and consistent approach to risk throughout the business cycle.

Ultimately, a board can only be as effective and as healthy as the underlying business that it governs – and this is heavily dependent on a smooth flow of information and constructive relationships between board and management. ■

Gillian Lees is an enterprise governance specialist in CIMA's new Knowledge Unit. This article first appeared in CIMA Insight, and it is published by CIMA (Chartered Institute of Management Accountants).

