

CReCER 2011

Corporate Governance:
Current Challenges and Key Success Factors

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Purpose of Corporate Governance

- To safeguard the interests of all stakeholders,
be they shareholders, other investors, employees, communities, etc.
- To ensure effective stewardship over the organisation's affairs
- To guide the board to take actions in line with the organisation's objectives
- To provide shareholders and, where appropriate, other stakeholders the framework to hold the board to account.

Current Challenges /1

- Businesses are increasingly becoming global in nature, and so are investors
- There is no single global corporate governance framework, *and there probably never will be!*
- Nor is there a single global oversight body
- Poor governance affects everyone, everywhere – the 2008 financial crisis had global implications which remain with us today – *millions have had their savings and future pensions wiped out, probably for ever!*
- Governance is often seen as a compliance exercise rather than embedded in the way the organisation works.

Current Challenges /2

- Many would say that the “comply or explain” principle is ineffective
- The focus of boards and investors tend to be short-term
- Getting corporate reporting right to allow shareholders/other stakeholders to engage with boards
- Many see governance as a “large company” issue.

Key Success Factors for Effective Corporate Governance /1

- An organisation's corporate governance process should be communicated clearly
- Board diversity prevents "group-think"
- The tone should be set from the top i.e. the board
- Boards should include a mix of executive and independent non-executive directors – *the role of the NED should be to oversee and constructively challenge the executive*
- Board members should possess skills and knowledge appropriate for the business
- Directors should have sufficient financial knowledge to assess the financial direction of the organisation, and an understanding of the risks in the business and the level of risk being taken.

Key Success Factors for Effective Corporate Governance /2

- The organisation's risk management and control processes need to be understood by the board
- An independent internal audit function, reporting directly to the audit committee
- An independent ethics/corporate code committee to advise the board on codes of behaviour and ethics
- An independent hotline/web access for whistle-blowers
- Shareholders should take an interest in the organisation, including holding the board to account for its overall performance, not just the financial results – *they need to also focus on the longer-term.*

Corporate Governance

- Good governance supports building sustainable value in business and society.
- It is not just about protecting stakeholders' interests or a compliance exercise to satisfy regulators.