The future of Governance: the same or a different path?

By Vanessa Jones, Corporate Governance Consultant

The last decade has seen plenty of regulatory soul searching on how we can improve our systems of corporate governance. What with inquiries, reviews, investigations, discussion papers, green papers, consultation papers as well as general naval gazing and blue sky thinking; that's all right and proper in the scheme of things. However, given the massive failures our markets have endured and the loss of public trust in the corporate world in the context of shifting societal expectations, we do need more focused energy on the value we place on real effective governance.

As a corporate governance professional, I recently read *'Boards That Dare'* by Stigter & Cooper. It highlights the persistent misconception that boards should be primarily driven by shareholder value and warns that those boards who continue to apply narrow interpretations of value and care are unlikely to survive.

'Boards That Dare' reveals an opportunity for boards to redefine value and care for employees, consumers, communities, society, the environment and shareholders. It is a bold and practical book that claims to deliver the necessary solutions to future-proof today's boards. It was a refreshing read that looks at boards in a wider context and perspective, but it left me thinking hard about how we can get to where we need to be from where we are.

It is easy to lose the big thinking in the process of implementation. It is easy for companies to say stuff on value and care for stakeholders but hard for some of them to actually do it!

From the way I see, it over the years CSR or ESG initiatives have been at best unsatisfactory and at their worst fundamentally flawed. Generation Y sees through this PR stunt as societal expectations shifting quickly and against the corporate world. Generation Z may not be so tolerant or benign.

Then I read a **speech** delivered by Sir Winfried Bischoff – Chairman, Financial Reporting Council – in support of the Lord Mayor's *'Business of Trust'* event at Mansion House on 30 May 2018. In it he offered glimpses of what would be in the new *UK Corporate Governance Code 2018*, due to be published shortly. There were no surprises in that he revealed the new Code would ask companies to report on wider stakeholder issues; this echoed the requirement in the Companies Act 2006 that boards must have due regard to the interests of stakeholders not just shareholders.

Sir Winfried also referenced an article in the *Harvard Business Review 2017* by Professors Joe Bower and Lynn Paine who argued that in managing for the long-term, it is the company's health and not the shareholders' wealth that must be the board's priority. It was interesting to reflect on this within a UK context.

I think back to business leaders like Abraham Darby, George Cadbury and Joseph Rowntree who ran their businesses with trust and integrity, justice and equality and with a certain amount of simplicity. Where we need to get to may not be a new place at all!

In focusing on the big picture items, it is sometimes easy to miss or put on the back-burner, smaller but no less effective improvements that is within the control of all governance professionals and which can make a big difference. I believe governance professionals can add value, while all the big issue stuff is being considered and new regulations are being formulated.

Many problems arise because culture and policies are not cascaded or embedded fully. Simplicity in process and thought is a powerful tool. Transparency of process is good – opacity can be a problem. Often it is when processes are overly complicated that unwanted behaviours and practices creep in. Principles are good and keeping them simple is important.

Examples of good principles and some useful behaviours to embed are:

- Always act in the company’s best interests
- Always act with integrity
- Follow the company’s constitution
- Be honest
- Be diligent and exercise care
- Be well informed
- Keep accurate records
- Remain responsible for work delegated to others
- Avoid conflicts of interest and if in doubt disclose them at the earliest opportunity
- Seek external advice where necessary

Finally, inadequate and insufficient provision of information to the board is a common governance failure. So, what questions should we all be asking: Whose responsibility is it? What are boards doing to check that their culture and policies are embedded within the organisation? Do boards feel that the information provided to them is sufficient enough for boards to exercise their business judgement?

Well may be the new Corporate Governance Code due to be launched this year, may just provide the answers!

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