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ISN'T THIS JUST MORE RED-TAPE?

Article by iS Partners and CGF Research Institute (Pty) Ltd

The recent phone hacking and banking scandals in Europe have again illustrated the importance of corporate governance; showcasing the manner in which organisations can incur irreparable damage to their reputation when they do not pay correct attention to their governance practices.

However, there are other aspects to consider when formulating an organisation's *Corporate Governance Framework*® and its desired practices, and these components must be incorporated within the core of an organisation's strategy to ensure they are consistently applied, monitored and measured.

Corporate governance constitutes amongst other, policies, procedures and guidelines; each of which fulfil the relevant measures to ensure that the appropriate people within an organisation are equipped to understand their respective roles and responsibilities. One of the principle objectives is to ensure the organisation is directed and controlled in such a manner that it meets with the general approval of the organisation's shareholders, as well as its stakeholders, whilst staying abreast of the law and accepted business practices. Corporate governance is also about discipline. Applied correctly, those employees who are in leadership positions -- all be they at various levels -- will be in a far better position to regulate their decision making with the mandate to do so. One of the aims of applying good governance within an organisation is to ensure a safe and organised operation which empowers employees to make carefully considered decisions, thereby eliminating, amongst other, poor business practices which cause unnecessary or harmful damage to the organisation and its stakeholders.

Whilst this is not an exhaustive list, here are six reasons to understand why sound governance and its practices are important in your organisation:

1. Ensure strategy implementation

It is estimated that up to 57%* of strategy failures in organisations are due to implementation failures, and not due to a poor formulation of the strategy. The primary driver behind corporate governance should be to ensure that strategy formulation results in the desired action. Policies and procedures should reflect the organisational objectives to ensure that decisions are made in line with the intended strategy. Sound governance implementation, which is carefully considered and applied, will provide a framework of rules and structures by which authority is delegated from the Board (i.e. strategy formulators) to the operations (i.e. strategy implementers).

2. Statutory compliance

Unquestionably, being a good corporate citizen implies that the organisation is observant and compliant to the various legislation, regulation, charters, policies and guidelines to which it is held accountable. This is particularly true for the financial services industry, which by the sector's nature, is very regulated with strict compliance provisions dealing with matters such as for example Sarbanes-Oxley Act (SOX), Basel III, King III, CPA and PoPI. Needless to say, there are new Acts created on a regular basis, and the organisation's governance teams need to be acutely aware of the impacts of new regulations and that these are factored within the organisation's key policies and procedures, in order that they remain compliant with the law. Statutory compliance must be viewed as the minimum standard in any organisation. Simply complying with the law will not create an environment that attracts and retains top staff and customers.

3. Reflection of corporate values

One aspect that is frequently overlooked in corporate governance is how the organisation's governance reflects its own corporate values, and the manner in which its employees are expected to uphold these values. Corporate values may include aspects like morals, beliefs, ethics, ideology and attitudes towards subjects like sustainability, fair treatment of employees, adherence to the law, environmental concerns and CSR (Corporate Social Responsibility). These values are meant to guide the behaviour of all the organisation's employees, and should be based on principles that transcend any specific situation.

Corporate values are standards by which priorities are set, including the rules that must be adhered to by all levels of employees. These values provide guidance in respect to desirable behaviour and outcomes. Corporate values are part of an organisation's culture, described as 'the ethical framework that governs the organisation's policies and practices…' and may include aspects that emphasise innovation, flexibility, speed, efficiency, quality, customer service, risk taking, responsibility and business improvement.

Corporate values and culture can become quite viral -- with either positive or negative connotations as the case may be -- particularly when an organisation explicitly expresses its policies and procedures that describe how the organisation conducts itself, what it stands for and the behaviour it expects from its employees. Strong corporate values are a typical characteristic of persistently high performers who show strong financial performance without sacrificing social or environmental responsibilities.

4. Risk aversion

Governance is required to mitigate risk in organisations through explicit policies that not only guide certain actions, but also prevent undesirable behaviour. An analysis of most corporate scandals relating to acts of greed, criminality or collapse, show that in almost all instances there is either no or poor governance practices, or poor risk management processes in place, resulting in some form of financial and / or reputational damage.

Risk aversion through governance requires greater transparency and openness in the way in which organisations function. This transparency must not be limited to listed companies only, but must also include other organisations, particularly those with multiple stakeholders.

When directors, prescribed officers and managers face deadlines, it may be tempting for them to cut corners and deliver a product or service of inferior quality to save cost, time and resources. Sound governance and its applied principles should guide these employees in their decision making processes, thereby reducing the wide ranging risks in their organisation, for example job safety, environmental damage and so forth.

Organisations may use sound governance practices to improve their relationships with stakeholders, and in the case of labour matters, reduce the risks associated with strikes, workplace violence and other related matters where there are conflicting interests. When an organisation behaves in accordance with clear and inclusive policies, it is less likely to be involved in corporate scandals and controversies.

5. Stakeholder expectations

The organisation needs to balance its financial performance and survival, to an all round inclusive approach of its non – financial interests to include the manner in which it treats people and the environment. Clearly, the demands from consumers, suppliers, employees, shareholders and the community at large need to be factored as critical components for its success. It is the responsibility of the Board to ensure that the interests of all the organisation's key stakeholders are balanced and reflected in its policies and procedures.

The primary stakeholder of the organisation remains its shareholders, and the organisation needs to ensure that its policies and performances are aligned to secure the long term sustainability and profitability of those organisations who operate for profit. Listed companies especially are required to implement governance that ensures that its management act in good faith and that customers and trade partners are protected from fraud and unethical business behaviour.

Increasingly, society by and large demands equality, ethics and sustainability; however society's demands may lead to a conflict between sustainability and profitability. Examples of such policies include charitable contributions, environmental concerns and outreach programmes. In this vein, one needs to consider to what extent profit maximisation will be justified, considering the affect that economic activity has on the environment and the increased chasm between rich and poor?

6. Best practices

The last driver behind sound governance is the alignment of *corporate practices* and *best practices*. If it is proven to have a significant competitive advantage to do business in a particular way, and assuming that this is ethically acceptable, then these practices should be reflected and supported within the organisation's policies, guidelines and procedures.

Best practices may for example include the way you do business (e.g. marketing, leads management and branding) or employee behaviour (e.g. dress-codes, e-mail and Internet policies, cell phone use and codes of conduct).

Aligning to best practices should therefore ensure a drive towards more efficient and effective processes in the organisation.

It is imperative therefore, that an organisation intent on improving its corporate governance image and practices, does not view governance simply as more red tape, but rather consciously apply itself to the principles of wanting to become a better, more responsible corporate citizen.

Undoubtedly, whilst there are more reasons an organisation could consider when it considers its *Corporate Governance Framework®* approach, what remains key is the fact that organisations must ensure all the interests of the stakeholders are addressed. In order to achieve some of these objectives, organisations will need a robust strategy, clear action points and IT systems to monitor, manage and track the extent to which the organisation is complying with its overall plan.

Expectedly, there are IT systems in place to disseminate the organisation's key policies, making use of tools like SharePoint in order to track the organisation's compliance and performance, and supported with the use of Business Intelligence (BI) solutions. Getting this wrong would definitely cause an organisation to 'double-loop' itself. In these circumstances, trying to become a better governed organisation will simply be disregarded as just more red tape.

<u>About iS Partners</u>

iS Partners was established in 2001 and the company collaborates extensively with thought leaders within their field of expertise, enabling their clients to innovate and create new ways of improving their businesses.

The company's focus resides in the implementation, customisation and integration of core application development on Microsoft platforms for business intelligence, customer relationship management, corporate performance management and knowledge management solutions.

Within their subsidiaries; *PERFORMANCE BUSINESS* was established to address the demand in the market for hosted solutions which assists to align partnerships and unlock business value to customers through operational and industry-specific hosted applications. *PROGNEO* was established to provide specialist financial consulting services, linking finance and technology to transform the way finance departments operate. For more information about iS Partners visit www.ispartners.co.za

About CGF Research Institute (Pty) Ltd

CGF specialises in conducting desktop research on Governance, Risk and Compliance (GRC) related topics. The company has developed numerous products that cover GRC reports designed to create a high-level awareness and understanding of issues impacting a CEO through to all employees of the organisation.

CGF's capabilities extend to management consulting, executive learning and facilitation of Corporate Governance and Risk awareness workshops, which caters for large corporates to small and medium sized businesses. For more information about CGF Research Institute visit www.cgf.co.za or www.corporate-governance.co.za

* Li, Y., Guohui, S., Eppler, M.J., 2008. *Making Strategy Work: A Literature Review on the Strategy Implementation*. Available from: http://www.knowledge-communication.org/pdf/making-strategy-work.pdf