



Undertaking Corporate Governance Reviews

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Reviews feature in prescriptive corporate governance codes that must be complied with or adopted on a 'comply or explain' basis and those that are voluntary recommendations. Their value, impact and strategic significance can depend upon their purpose, scope and how they are undertaken, whether to assess compliance, address particular deficiencies and/or improve outputs in areas such as accountability, engagement, performance and/or transparency.

Some boards are more committed to undertaking reviews and learning from them than others. Ahead of governance reviews, directors should discuss and agree what they mean by governance and the purpose, terms of reference and frequency of reviews and by whom they should be undertaken. Consideration should also be given to from whose and/or what perspective a review should be conducted and in relation to whose or what interests.

Some reviews mainly cover areas that are directly under the control of a board such as the activities of a company's employees or occurring within its own premises. Others may be designed to also embrace strategically significant collaborations and supply and value chains and/or embrace certain critical activities and/or exposures and decisions that ought to be undertaken by a board and/or which have governance consequences.

Scoping Corporate Governance Reviews

Reviews often address areas considered in an applicable corporate governance code such as board leadership, corporate purpose, division of responsibilities, board composition, succession and evaluation, audit, risk and internal control, and remuneration. Exploring and understanding how an area has been addressed and



relationships. Major project or programme governance, including the transition to new systems and processes, could be an important element and work stream within a broader corporate governance review.

A review and particular elements within it could focus upon governance arrangements, frameworks, mechanisms, processes and structures and/or upon how these are used by directors and/or the consequences such as impacts and outcomes of their use. Attention might also need to be paid to the governance requirements or implications of a merger, strategic joint venture or new business model, or coping with a scientific or technological revolution.

resulting contribution and consequences can be more important than simply ticking a box to indicate that something has been done.

The scoping of a review ought to cover the tasks a review team should undertake and whether it should pay particular attention to one or more activities, for example visioning, decision making or reporting. The significance attached to a review criterion such as transparency may vary across different areas and activities. Boards should not forget the importance of being ready for the unexpected. Crisis and recovery arrangements should be periodically reviewed.

The initial Cadbury report was specifically concerned with the financial aspects of corporate governance. The primacy of owner interests has been increasingly challenged as opinion has moved in favour of a broader stakeholder capitalism. As further areas of concern have been added and CSR has progressed to a wider and more integrated set of ESG considerations and development goals, boards and review teams should remember that financial viability may be a necessary underpinning of capability and progress in many other areas.

Establishing the Breadth and Boundaries of a Governance Review

A review could be undertaken of the governance of an individual company and/or the relationships between entities within a joint venture, consortium or group. As noted above, the remit of a review could extend across a supply or value chain or network of collaborations needed for an effective response to an existential challenge such as climate change.

In some business sectors, certain major projects may account for a significant proportion of total corporate activity, output and value created. Their conduct and success might have implications for a company's future, risk profile and its strategic

Exploring Stakeholder Views and Governance Expectations

Contemporary enterprises, their survival and their continuing relevance and success can depend upon a network of relationships with other entities and various stakeholder groups. Each of these may have their own expectations, interests and aspirations. They may also be able to help or hinder a company's prospects and progress. Smart boards are aware of the importance of reputation, trust and certain relationships. They keep them under review.

A company might be strategically significant for other entities, whether as a customer, a supplier, a business partner, a subject of regulation, a recipient of a loan or as an important investment within a portfolio. Within them there may be people with expectations and views regarding how it should be governed. Their perspective and opinions might be helpful in determining areas for investigation and improvement, and could be explored.

Some parties such as ESG and other responsible investors might have already made their views known. The reviews undertaken by some boards narrowly focus on internal arrangements and areas covered by corporate governance codes that are considered applicable or felt to be relevant. Insufficient attention may be given to codes, guidelines and practices applicable to stakeholder groups, such as those relating to responsible stewardship.

Assessing Corporate Governance Outputs

Governance can be perceived in terms of arrangements, as direction setting, monitoring, reporting and other processes involving directors and boards, or in terms of what those undertaking these activities actually do, including the decisions they take and their outcomes, consequences and results. A more rounded view would also embrace the impacts upon

others of director and board activities such as engaging, motivating and supporting stakeholders.

Opinions on the outcomes, consequences and implications of decisions will depend upon the priority attached to different categories and levels of interest and the arena a decision maker is able to influence. Individual and group motivations could range from narrow self-interest to wider community requirements. The goals pursued by a board could range from specific advantages for the relevant company to wider benefits of addressing shared global concerns. There may also be both direct and indirect impacts of board activities to consider.

The achievement of corporate goals and objectives can reflect the support that a board and its members provide to a CEO, executive team and others who are working towards their attainment, confronting obstacles and addressing issues and possibilities as they arise. When implementing a board's strategic direction, there may be entrenched interests to confront, such as a clique whose agenda has unfair consequences for others. Review teams should be alert to how resilient governance arrangements and processes are or might be when stressed.

Agreeing and Refreshing the Remits of Reviews

Governance reviews should not become an unchanging and ritualistic exercise that simply follows the pattern of previous years. Reviews often start with current arrangements rather than a discussion of those which might be more appropriate for what a board is seeking to achieve, the current stage of development of a company, particular deficiencies, challenges and/or opportunities, the nature of its activities and the context in which it operates.

For one company, the focus in a particular review could be an identified area of weakness or opportunity. In another case, directors might feel that a company has reached a level of development that suggests a fundamental review of governance arrangements may be required. Deficiencies and opportunities can depend upon one's perspective and the members of a board might not view themselves and governance arrangements as others see them.

There may be areas that have been overlooked in past reviews or are now assuming greater importance as a result of more recent events or developments. The latter could include failings, undesirable impacts and external criticisms that might suggest or indicate possible governance deficiencies. Much may depend upon to whom a board feels accountable and for what. Many boards have accepted accountabilities that go beyond financial performance and legal and regulatory requirements to now embrace social and environmental considerations.

Forming Governance Review Teams

The more limited the scope of a review, the fewer people who might need to be involved. In some companies, a checklist type review might be undertaken by a member of the secretarial team to identify departures from 'standard practice' as per a code or particular requirements. A larger team is usually involved, with the specialist skills required to cover a review's remit.

Entirely internal review teams can lack independence and objectivity. Familiarity, inertia and groupthink might limit the extent to which assumptions are questioned. Some boards continually refer back to a company's purpose, vision and values and, without question, use them as sheet anchors. They may be



regarded as immutable, when they should be regularly reviewed. As threats and opportunities evolve, perhaps they need to be more ambitious.

The exact composition of a review team and the mix of internal and external members will depend upon the scope and remit factors considered above. There are sometimes certain areas, for example fraud or cyber governance arrangements and responsibilities, where it may be particularly helpful and important that a team or sub-team includes technical specialists who are current in relation to the latest risks and how best to address them.

Governance Review Approach and Priorities

Much will depend upon the corporate purpose, vision and values a board determines and the economic, social and environmental roles it feels that it is possible and desirable for a company to play, and whether these should be at a local, national or international level. The relative importance attached to each role and their level may vary over time.

Directors should be on the lookout for changes and ensure that priorities reflect and remain aligned to the purpose and roles agreed by a board and the strategic direction it provides. Reviews of each level of assurance sought by a board and assurance mechanisms may need to address distinct financial, economic, societal and environmental elements. They should also reflect the relative importance a board attaches to these areas.

From a systems perspective, governance could be viewed in terms of intelligence and other inputs into a decision making process that results in certain outcomes and impacts. A narrow review might focus on the role of a board in decision making, the adequacy of the information and advice it receives and rationality issues, while a broader one embraces the dynamics of the context in which a company operates and stakeholder relationships. A pre-decision process should allow time for thinking, discussion and individual judgements.

Formal and Informal Governance Arrangements

Governance reviews need to be far more than paper exercises. They should embrace what happens in practice, such as where influence really lies. Some reviews just focus on the formal and/or structural aspects of corporate governance. They ignore valuable informal activities such as meetings of executives responsible for and/or interested in particular governance elements, or who view it from a functional or otherwise distinct perspective.

There can be merit in formalising certain informal activities such as periodically meeting to share governance concerns, identify issues or discuss root causes. Annual reports sometimes also concentrate on formal aspects. Stakeholder concerns, such as



environmental and social goals and priorities of ESG investors, may be overlooked. Identifying and addressing what ought to be may be more important than accepting a current situation. A view may need to be taken on whether what exists is desirable or should be challenged and changed.

A formal aspect that might need to be discussed is whether in addition to the board's own governance role and remit, there are particular governance responsibilities that should be given to one or more committees of the board. Many audit committees have specific governance and assurance responsibilities. Some organisations, including in the public sector, have a separate governance committee or an audit and governance committee. Care may need to be taken to ensure that when delegating a board does not abrogate its own responsibilities.

Assessing Board Performance

Progress or inadequacy in a board's contribution could be measured in terms of awareness, understanding, engagement, collaboration and/or action regarding a company's future and/or existential challenges. Last month's IPCC report on the mitigation of climate change suggests action to do more is needed now and that the next few years will be critical if opportunities are to be seized, successful actions scaled up and catastrophe avoided.

Increasingly, stakeholder assessments of board performance may be concerned with outcomes rather than compliance with rules, and in particular corporate impact on key outcomes such as the environment and climate change. Boards should evaluate their own performance at least once a year and periodic independent reviews should also be undertaken.

Governance arrangements can impact board performance, whether positively in the case of suitable ones or negatively in the case of inappropriate ones. Some boards identify and overcome governance hinders, while others are frustrated by them until they are tackled and under-perform in comparison. There should be alignment and consistency in the approaches used to assess governance, board and corporate performance, contribution and value added.

Building Learning into Governance Reviews

A learning board that regularly reviews significant decisions, strategically important developments and crucial board meetings to consider lessons and what could have been done differently or better, could also contemplate governance implications and related process improvements. Governance reviews alone are unlikely to result in an effective board of competent directors unless accompanied by director and board development activities.

Governance review teams should monitor and learn from the findings of other reviews that are undertaken. Some boards initiate various reviews in relative isolation, while others seek to integrate them and ensure that different review exercises cross fertilise each other. Directors could look for common elements or root causes and reflect on whether some reviews, for example of vision, mission or corporate purpose, should feed into other

reviews, or whether recent ones should be revisited on account of their possible implications.

Ineffective implementation spares the stakeholders of some companies the negative corporate, economic, social and environmental consequences of a board's mistaken decisions, inappropriate policies and misguided strategies. On occasion, what a board does not do, particularly in relation to missing opportunities or responding too late, can be especially damaging. The value of reviews depends upon the situation, the self-awareness and honesty of reviewers and the openness and willingness to listen and learn of those who receive them.

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