
CEOs grab governance bull by horns

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BOARDS SIDELINED

CHIEF EXECUTIVES ARE the strongest leaders in governance, as opposed to boards of directors, according to research from the Australia Institute of Management (AIM).

Keith Hilless, national president of AIM, said much attention had been focused on boards in the wake of corporate scandals and attempts to improve governance. "Recent corporate scandals have pushed directors into the spotlight as key agents for good governance," he said. "But the unfortunate consequence is that the role of managers has been sidelined."

A survey of directors and managers carried out by AIM Queensland, the Queensland University of Technology and the University of Queensland, found that 83 per cent believe CEOs are highly effective or highly involved in initiating and championing governance change, while chairmen/chairwomen were ranked similarly by 69 per cent. Fewer than 40 per cent of nonexecutive directors rated themselves as being highly or very highly involved.

The survey also revealed differing opinions of good governance between CEOs and boards. Boards, for example, saw the protection of broader organisational interests through risk management as a key indicator of effectiveness, while management saw the board's contribution as being most important in establishing boundaries and engaging with and advising the CEO and executives.

"When directors and managers are not on the same page as to the board's priority activities, you have the ingredients for a dysfunctional working relationship. There is clearly a need for more dialogue to establish a common understanding around what makes an effective board so that the expectations of managers and directors can both be met or at least, addressed," said Hilless.

He added that organisations should take a fresh look at governance. "This survey provides a much-needed reality check on how organisations are really governed. The findings help restore the balance by recognising that directors and managers are both key players. We expect these findings to kick-start a frank discussion on the kind of 'whole-of-organisation' solutions needed to achieve effective governance," Hilless said.

Meanwhile a separate study from the University of Melbourne has revealed that very few company directors equate the best interests of a company with the short-term interests of shareholders.

The study, led by Professor Ian Ramsay from the Centre for Corporate Law and Securities Regulation and Professor Richard Mitchell, from the Centre for Employment and Labour Regulations Law, probed directors attitudes towards various stakeholders.

The majority believed that in order at act in the best interests of the company they must balance the needs of all stakeholders. Shareholders were ranked as the highest priority stakeholders, closely followed by the company, which was ranked most important by 40 per cent of directors. Customers, however, were ranked by only 8 per cent, while employees fared even worse at 6.7 per cent. The community, the country and the environment were ranked as being the stakeholders with least priority at 0.3, 0.3 and 0.6 per cent respectively.

"US studies, for example, show that around eight out of 10 directors rank shareholders ahead of all other stakeholders, including employees," said Meredith Jones, lead researcher. "The Melbourne University study shows that only four out of 10 Australian directors rank shareholders first. In contrast, in Japan studies have shown employees to be ranked highly over other stakeholder groups." RM

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