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Corporate governance lessons and a wider view of directors' duties

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When corporate governance fails, as has been the case recently with companies such as Carillion, Bhs and Patisserie Valerie, what is usually the specific reason?

When corporate governance fails, this is generally the result of a combination of different factors rather than simply a single point of failure. However, whilst I cannot comment on the specifics of the Carillion, Bhs or Patisserie Valerie situations, where corporate governance breaks down, first and foremost you tend to see a lack of effective checks and balances within the business. Essentially, there will be a failure to challenge and hold the board and other key management staff to account through reasoned, objective monitoring and questioning, and a failure by the directors and management to respond to this monitoring and questioning constructively and collaboratively.

But depending on the situation, there also tend to be many other underlying reasons why corporate governance fails. This could be a failure to invite enough voices to the conversation (board diversity); failure to take external advice (or follow the advice taken!); failure to follow audit and other internal procedures; failure to pay proper attention to rules and limits on appointments and reappointments; failures in terms of transparency, foresight or knowledge. Where corporate governance has broken down, it's quite rare that just one of these things happens in isolation. Instead, these failures tend to be symptomatic of a wider failure within the management framework of the organisation.

Do you think corporate governance needs to be reformed to take account of a wider group of stakeholder interests - such as pensioners, customers, etc – and place less emphasis on the interests of shareholders?

If a board has a properly diverse skillset and takes a measured view of the risks affecting the company over the short, medium and longer term, it will be considering the perspectives of a wide range of stakeholders. A company does not exist in isolation, it lives and thrives in its environment; that environment affects its well-being, just as the company can affect the well-being of those involved with it, however indirectly.

So even looked at purely from the company's perspective, in safeguarding the interests of its shareholders, the directors must keep a sharp eye on the wider landscape, including the way in which the company is perceived. It would be strange, for example, to imagine that an effective board, doing its job properly, would not be considering the perspectives of its customers. That said, for corporate governance to be truly effective, there arguably needs to be a cultural shift by companies towards a greater collective social responsibility. Perhaps this means reforming the rules around corporate governance, but what we are really talking about is the need for an appreciation of the company's footprint and a recognition of the impact of that footprint in a wider sense.

To what extent can regulators – and auditors – be expected to provide an external check to the failings of company boards?

Regulators and auditors of course play their part in providing external checks on companies, but in reality they can only ever be a last line of defence. No company should be relying on its regulator or auditor to realise and remedy the failings of its board – to "catch out" any wrongdoing, as it were. There are many other stakeholders, including non-executive directors and the shareholders themselves, who are in a much better position to hold management to account. At the end of the day, the directors have to answer to the shareholders as the owners of the company, and it is the shareholders who have the ultimate authority to determine the composition of the board and step in if a board is failing. Involvement and collaboration are key.

This is an extended version of comments originally published in Business Life Global.

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