

Diagnosing Governance and Risk Management Issues and then Future Proofing Them - Shorter report

The CRSA Forum exists to share and improve understanding on the people aspects of governance and risk management. It met in December 2016 to consider why corporate governance and risk management have failed to prevent frauds and financial crises.

Peter Bebb of Perendie began by reminding us of recent corporate collapses and corporate wrongdoing including mis-selling, fraud, rogue trading, poor controls over corporate assets resulting in security breaches and loss of physical assets and oil spills, and failure of care in the NHS and the reputation damage resulting from these incidents.

Corporate governance and risk management don't take human factors, such as incentives and how we make decisions, into account. Governance and risk management reports were seen as backward looking and obscured by detail. They don't support decision-making, tell you whether rules are being followed or are likely to be followed or how the organisation will perform in future.

Causes of failure of governance

In small groups we reflected on the causes and Tweeted our opinions of the causes of failure. We then voted on which were the most important.

- A. Recognising & agreeing risk plus complexity of risk
- B. Personal interest and lack of personal responsibility on individual board members
- C. Lack of transparency or ethics
- D. Lack of appropriate personal responsibility **(Most important)**
- E. Short term targets, over long term culture **(3rd choice)**
- F. Poor ethics and accountability at the top
- G. Board clarity & accountability
- H. Governance is very challenging in an ever changing world
- I. Lack of protection of whistleblower, rule breakers don't often lose out **(2nd choice)**
- J. Not just the rules, culture too

One group talked about the need for individual and shared responsibility within an organisation and how their lack has contributed to governance failures. Organisation should be set up so that individuals are treated as responsible adults where relationships are built on trust rather than control.

Areas for action

We Tweeted our suggestions for action and then voted on which were most important. These were:

- A. Culture and values **(Most important)**
- B. Clarity of purpose, enabling appropriate behaviour **(3rd choice)**
- C. Individuals understanding what is expected
- D. Recognising & agreeing risk plus complexity of risk
- E. Create an international body who is able to hold the board to account

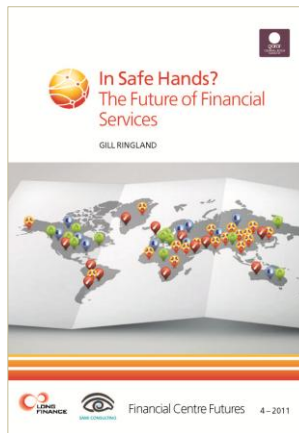
- F. Accountability & audit design
- G. Culture change - incentivise not penalise **(2nd choice)**

Gill Ringland, CEO of SAMI Consulting, led the meeting in exploring the future role and challenges for governance and risk management using four scenarios for 2040.



Background to the scenarios

- Project to create rounded views of the future of financial services
 - Supported by Long Finance community, www.longfinance.net
- Scenarios developed by SAMI
 - Fleshed out and tested through open events at London Guildhall and Barnard's Inn
 - Drafts of the report critiqued by Long Finance Kitchen Cabinet
- Report published in 2012



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The *'Second Hand'* scenario is the most similar to today and has developed as a result of the changes above without any significant disruption or systemic change. In *'Globalisation'* the main change would be the increased importance of virtual (web based) connections with less significance given to geographical place. In *'City Societies'* cities become wealth clusters or brands, nation states fail and democracy, capitalism and western values compete with other organising concepts within different cities. In *'Affinity Groups'* society has re-formed around affinity groups; multiple value systems are accommodated in a single geography. In this scenario, London could become 20 or 30 ethnically diverse clusters, all globally linked more strongly than their local interactions.

We considered the scenarios in groups. The *Globalisation group* considered that virtual working would mean more isolation. Traditional management and governance controls may not work if people did not know what others were doing creating problems with lack of accountability and responsibility. Alternatively virtual working could make it easier for corporations to control staff, with unseen but all seeing eyes knowing where staff are and what they are doing.

In the *Affinity Groups* scenario groupings could form around common languages, corporations and conceivably intelligence as in Aldous Huxley's *Brave New World*. Current concepts of control and responsibility may no longer be needed if people share a common purpose and culture, e.g. the

current issue of formal incentives incentivising the wrong behaviours could be less if people have a common framework. However there could be rivalries e.g, between all powerful big corporations (as one Affinity Group) and other groups.

A newspaper headline in *City Societies* might read 'London's per head wealth 10 times that of Birmingham' - there are winner and loser cities. International affinity groups, including corporations, would be more powerful. Staff in corporations would have different cultures in different cities or they may try to impose a common culture across all the cities where they have staff. There would need to be trade agreements between cities and some commonality in the legal systems. Cities would have good internal controls but there could be chaos externally. The more successful global cities might negotiate common frameworks benefitting all cities or they may benefit only themselves with other cities ultimately disintegrating or being taken over by other cities. Some cities may create armies to expand by conquest. Others would expand by succeeding in the market place.

People felt that a combination of *City Societies* and *Affinity Groups* could be quite likely.

So what should we do today? The future is unknowable but consideration of these scenarios could help us understand the world as it changes and spot what is happening earlier. The view of the room was to have capitalism with social responsibility and a shared sense of values and ethics. We should all try to view companies and the systems within which they operate from other perspectives looking down as if from a helicopter or observing it from distant vantage points, or from the eyes of different stakeholders. We should focus on purpose but beware people whose purpose is not socially benign.

Some conclusions

- Globalisation, in some form, seems likely to continue in all four scenarios.
- Governance will need to embrace technology.
- In *City Societies* there must be accountability for leaders and transparency for cities and organisations.
- The importance of culture in governance is emphasised by *Affinity Groups*, governance structures need to reflect the values of diverse cultures.

Notes

1. Gill Ringland's PowerPoint slides can be downloaded [here](#)
2. Peter Bebb's PowerPoint slides can be downloaded [here](#)
3. Slides showing participants Tweets and priorities [here](#)
4. More information about the CRSA Forum can be found at www.crsaforum.com
5. Join the CRSA Forum Linked In Group [here](#)
6. For further information or if you would like to attend future meetings contact paulmoxey@crsaforum.com
7. The next meeting will be on Board Oversight of Risk