

Enterprise Governance

Topic Gateway series no. 32



About Topic Gateways

Topic Gateways are intended as a refresher or introduction to topics of interest to CIMA members. They include a basic definition, a brief overview and a fuller explanation of practical application. Finally they signpost some further resources for detailed understanding and research.

Topic Gateways are available electronically to CIMA Members only in the CPD Centre on the CIMA website, along with a number of electronic resources.

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CIMA supports its members and students with its Technical Information Service (TIS) for their work and CPD needs.

Our information specialists and accounting specialists work closely together to identify or create authoritative resources to help members resolve their work related information needs. Additionally, our accounting specialists can help CIMA members and students with the interpretation of guidance on financial reporting, financial management and performance management, as defined in the CIMA Official Terminology 2005 edition.

CIMA members and students should sign into My CIMA to access these services and resources.

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Enterprise Governance

Definition and concept

Enterprise governance can be defined as:

‘The set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organisation’s resources are used responsibly.’

(CIMA Official Terminology, 2005)

Context

In the current CIMA syllabus, students will study and may be examined on Paper P3, management accounting risk and control strategy.

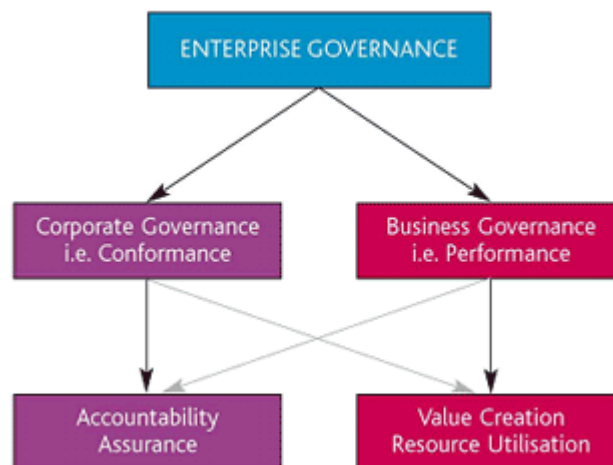
Related concepts

Corporate governance; the CIMA Strategic Scorecard™; risk management; enterprise risk management; strategy and performance.

Overview

Enterprise governance describes a framework covering both the corporate governance and business governance aspects of an organisation. The framework is illustrated below.

Figure 1: 'The enterprise governance framework' in Enterprise Governance – getting the balance right, IFAC/CIMA



Enterprise governance constitutes the entire accountability framework of an organisation. It has two dimensions:

1. Conformance or corporate governance.
2. Performance or business governance.

Application

Good corporate governance is important and it is critical that failures in this area are addressed properly. However, good corporate governance on its own cannot make an organisation successful. There is a danger that insufficient attention is paid to the need for organisations to create wealth or stakeholder value. Strategy and performance are also important.

The key message of enterprise governance is that an organisation must balance the two dimensions of conformance and performance needs to ensure long-term success.

The conformance dimension

This tends to take a historic view and covers corporate governance issues such as:

- roles of the chairman and CEO
- the role and composition of the board of directors
- board committees
- controls assurance
- risk management for compliance.

Codes and/or standards can generally address this dimension with compliance being subject to assurance and/or audit.

There are established oversight mechanisms for the board to ensure that good corporate governance processes are effective. These might include committees composed mainly or wholly of independent non-executive directors, particularly the audit committee or its equivalent in countries where the two tier board system is the norm. Other committees are usually the nominations committee and the remuneration committee.

The performance dimension

This tends to take a forward looking view. The performance dimension centres on strategy and value creation. The focus is on helping the board to make strategic decisions, to understand its appetite for risk and its key performance drivers. This dimension does not lend itself easily to a regime of standards and audit. Instead, it is desirable to develop a range of best practice tools and techniques such as scorecards and strategic enterprise systems that can be applied intelligently within different types of organisation.

However, while it is true that strategy is the responsibility of the full board, there are no dedicated oversight mechanisms comparable to the audit committee. Remuneration and financial reporting are scrutinised by a specialist board committee of independent non-executive directors and referred back to the full board. In contrast, the crucial area of strategy does not receive the same dedicated attention. There is therefore an oversight gap in respect of strategy.

One way of dealing with this would be to establish a strategy committee of similar status to the other board committees. However, this might put at risk the fundamental tenet that the board must take collective decisions on matters of strategy.

The CIMA Strategic Scorecard™

An alternative is to use a pragmatic and flexible tool that helps directors to exercise effective oversight of the organisation's strategic position and progress. This tool is the CIMA Strategic Scorecard™ and is covered in a separate Topic Gateway.

Enterprise governance is an overarching framework into which many tools and techniques and codes of best practice can fit. Examples include codes on corporate governance and financial reporting standards. Many of these are covered in other Topic Gateways; for example, corporate governance and risk management.

The International Federation of Accountants (IFAC) led a project to explore the concept of enterprise governance. A particular focus of the project was to consider what went wrong in companies and what had to be done to correct matters. The project was launched in response to the major corporate failures of the early 2000s, most notably, Enron, WorldCom and Parmalat. The results were published in the IFAC/CIMA publication *Enterprise governance – getting the balance right*. Available from: www.cimaglobal.com/executivereports [Accessed 7 August 2007].

Case studies

As a major part of the project, 27 case studies covering ten industry sectors and ten countries were undertaken. These focused on successes and failures, and explored both the conformance and performance aspects of enterprise governance.

In terms of corporate governance successes and failures, the following were the most significant issues:

- culture and tone from the top
- effectiveness of the board of directors
- effectiveness of the chief executive
- effectiveness of internal controls.

In terms of failures relating to strategy, the following issues were the most significant:

- poor choice and lack of clarity of strategy
- poor strategy execution
- failure to respond to abrupt changes or fast-moving market conditions.

It is interesting to note that in all the case studies on strategic failure, there was an acquisition that was poorly executed or which failed.

The following issues were the most significant in the cases of strategic success:

- choice and clarity of strategy
- effective strategy execution
- competency in mergers and acquisitions
- responsiveness to information flows
- effective risk management.

Organisations can review these factors to identify areas of weakness. As part of the IFAC/CIMA project, specific guidance was developed or highlighted to address issues of particular significance that had emerged during the project. These included:

- the CIMA Strategic Scorecard™ to address the issue of board involvement in strategy
- enterprise risk management
- the acquisition process and the risk management process to support it
- board performance.

Further work is in progress to develop principles of best practice in relation to enterprise governance. For example, IFAC is working on a statement of 'International good practice guidance.'

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Further information

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A recorded presentation on Enterprise Governance and the CIMA Strategic Scorecard™ is also available on the My CIMA section of the CIMA website.

Other publications

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