The enterprise governance score

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The economic turmoil of the recent past has raised fresh questions about the effectiveness of risk management methods employed by corporations. Whether it was the introduction of the US GAAP following the great crash of the late 1920s or Sarbox after the Enron collapse, historically, we greeted every crisis with a new set of rules. C*orporate governance,* in all probability, too, had its origins in the excesses of a market-based model of economy characterised by CEO domination, inside directors, proxy fights, transparency issues etc. But it worked, notwithstanding concerns lately that the regulatory undertones of the ***code*** may have actually rendered it a box-ticking exercise! As America Inc's influence on the world economy grew stronger business organisations got re-defined as a set of contracts, adding to the compliance burden.

The performance dimension

Realising that the *corporate governance code* was losing out on the crucial link up with the performance dimension, IFAC (the International Federation of Accountants) took up the issue with CIMA early this decade. CIMA's efforts to make corporate governance a two-dimensional (performance and conformance) one bore fruit. Enterprise Governance was born.

- Boardroom affair

Unlike *corporate governance* which has a 'Board' focus (e.g. Board conduct vis-a-vis shareholders) enterprise governance is about the organisation as a whole. But, in its current form it suffers from lack of a universal code that could take the governance agenda beyond the confines of the Boardroom. Whether about conformance or performance, to be effective enterprise governance ought to have enterprise-wide participation and involvement.

- Aggressive pursuit of SVA

Whether it was the great crash of the late 1920s or the sub-prime saga of the 21st century the common denominator remained greed, corporate or personal. This manifested itself in the aggressive pursuit of shareholder value addition witnessed in the last couple of decades. The mighty hedge funds and private equity firms, that grew in geometrical proportion in the last decade or so, put a premium on profit over principles.

- Ineffective risk management and lack of ethics

If the recent corporate extinction of the likes of Lehman Brothers is any indication Boards of several businesses found themselves back footed by lack of ethics, and ineffective risk management and internal controls. The labyrinthine Sarbox compliance may have popularised the need for robust internal control systems but detailed rules alone couldn't have saved businesses. Reducing organisations to a set of contracts runs the risk of alienating people. Ethics work best when these are embedded in the organisation's systems.

EG-Score®

The author has introduced a model of enterprise governance that aims to fix these concerns. Short for Enterprise Governance Score **EG-Score®** is about best practices. Hundreds of them actually! **EG-Score®** recognises that businesses exist to serve the stakeholders and considers their continued satisfaction critical to long-term sustainability. Principally, it identifies eight key stakeholders as business-critical. For each stakeholder segment it provides detailed practical solutions to measure financial performance, manage ethical, risk, control and compliance issues, and ensure stronger stakeholder relationship. Whilst the performance metrics include both financial and non-financial ones, the model makes an attempt to strike the right balance between the performance and conformance dimensions. Profitability is crucial but the model underscores solid stakeholder-relationship to be a long-term value proposition. In a sense **EG-Score®** provides a SMART (Specific, Measurable, Achievable, Realistic, Time-based) enterprise-wide solution to enterprise governance as we know it today.

Profit-ing responsibly

Profit-ing indeed is an undeniable motive for an entrepreneur in a market-based economy but its aggressive pursuit alone is unlikely to help businesses attain the ultimate corporate nirvana! Learning from the recent corporate crashes businesses must recognise that long-term sustainability is about **stake**-holder satisfaction and not share-holder satisfaction alone. **EG-Score®** seeks a shift in corporate focus from merely profit-ing to something like ***profit-ing responsibly*** by introducing a model that evaluates corporate performance from a stakeholders' perspective.

Enterprise-wide engagement

Enterprise governance can get really meaningful when people down the chain embrace it wholeheartedly. In order for this to happen the trickledown effect of governance should be felt in everything that people do in their 9-5 routine. The SMART approach that **EG-Score®**employs breaks enterprise governance down to small tasks so people even at the most bottom layer could join in.

Best practices *and* self-governance

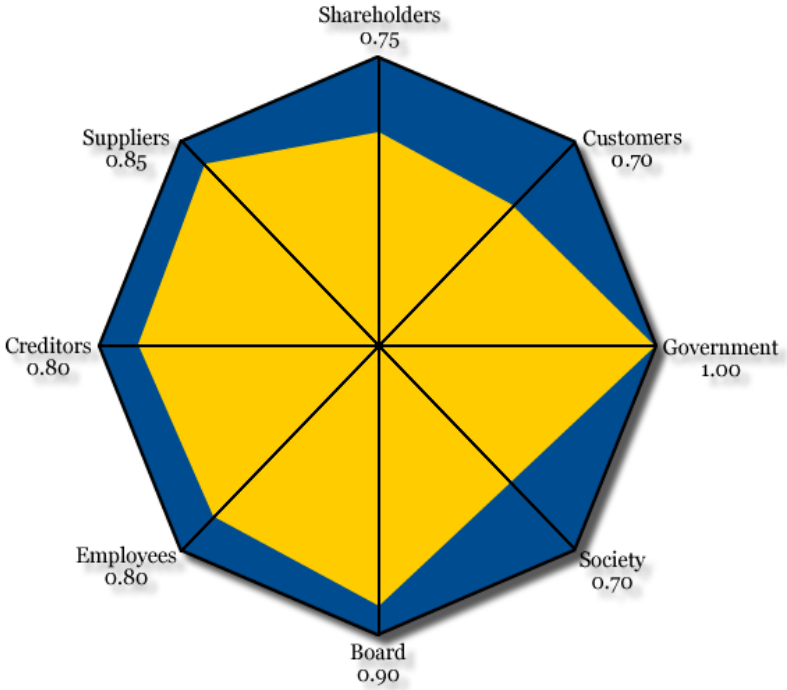
Best practices work better when these are ingrained in the organisation's fabric rather than pushed down through elaborate rules. That calls for an environment where self-governance is a corporate way of life – a cultural issue than about rules. **EG-Score®'s** emphasis on people makes this easier, in a digital age otherwise dominated by machine bureaucracies!

The conformance agenda

The focus on compliance couldn't have stopped at *corporate governance code* alone. **EG-Score®** takes this far beyond, and the Government segment within the model scours an organisation's compliance function in its entirety; from complying with *all* the laws

(company laws, taxation, data protection laws and down to even health & safety laws!), record-keeping, returns, communication with the government to even engaging with the law-makers!

Graphically the model is presented as follows:



EG-Score®

The inner yellow shape reflects actual achievement set against an ideal situation that the blue background represents. Scoring for each stakeholder segment is based on hundreds of metrics comprising all the essential elements that go in to making a successful and sustainable business. Each metric is assigned a weight depending on how business-critical it is, the maximum aggregate weighted score achievable for each stakeholder segment being 1.0 (100%).

Shareholders' **EG-Score®**

The shareholder segment scores against financial and non-financial metrics that test a wide range of elements from value addition, value potential, risks, rewards, investor relations, corporate reporting to ethical issues and even shareholder democracy. Scores are weighted depending on how critical the metrics are in ensuring a long-term shareholder relationship.

To illustrate, in this graph the shareholder segment has achieved during a given period, typically a financial year, a weighted score of 0.75 (75%) based on over 80 criteria. The metrics have been so chosen as to cover all the best practices that are relevant and meaningful for that stakeholder segment. But as organisations are dynamic systems

best practices will keep changing with passage of time.

EG-Score® is a basic model that needs to be calibrated to fit in to a particular country, industry or business sector. But it may prove an immensely valuable tool in the hands of Boards to have a helicopter view of the business at the same time providing options to drill down to areas that need further dissection. As the model blends statutory compliance with business performance whilst incorporating best practices, and promotes self-governance, the regulators may find it worth recommending for organisations subject to public scrutiny. It may provide a **uniform basis** for corporate reporting and may even simplify the voluminous annual reports that listed companies churn out every year. EG-Score® with highlights and lowlights for each stakeholder segment in an annual report should provide the much needed simplificity that accountants have been yearning for!

EG-Score® is unique. Founded on the principle that stakeholders' satisfaction is crucial to longer term business success it views businesses from a stakeholders' perspective. Its simple presentation provides the big picture that tells it all.

The author is a business advisor based on London