



Under the microscope

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A matter of trust

"Corporate governance has evolved over the past century to more effectively promote the nation's savings to include most productive uses. And, generally speaking, the resulting structure of business incentives, reporting, and accountability has served us well. We could not have achieved our current level of national productivity if corporate governments had been deeply flawed."

These remarks above, made by Alan Greenspan in a presentation to New York's Stern School of Business last year, formed the introduction to a series of observations relating to corporate governance and business performance.

As businesses have grown, he went on to say, so has the dispersal of ownership. This means that it has become increasingly important for large corporates to rely, not only on their boards of directors, but on their CEOs and senior executive teams to deliver success and respond to market pressures. The law of the business world dictates that CEO control and autonomy extends gradually with success. However, the moment a CEO is seen to fail the response from the market can be swift and fatal: either the board steps in or a hostile take-over bid is precipitated. Either way the tenure of the CEO comes under significant threat. Whilst this basic dynamic may at times appear ungrateful and insensitive, there can be no doubt that it works.

With the words of Alan Greenspan echoing in my mind I couldn't help but start reflecting on life in the artistic, heritage and cultural sectors where, for so long, large levels of public sector resource have been managed in a fashion that is far from

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perfect. In this sector, a world devoid of the hostile take-over, the role of a board or trust is, in theory at least, even more elevated. In the absence of angry shareholders baying for blood or hungry, acquisitive competitors looking to topple regimes, and given that public sector agencies themselves lack any disciplinary teeth, the control of a reckless or inadequate CEO or director is the sole responsibility of a board. But evidence shows that boards consistently fail either to act early enough, or worse still, to act at all.

As tax-payers, our money is being heavily invested in the country's cultural resource, either through the lotteries, the RDAs, city authorities or DCMS. We are, effectively, the shareholders of these organisations and as such deserve to have our investment more carefully managed. We are justified in expecting more by way of accountability from the trustees of these august bodies: if there is evidence of waste and mis-management it is the boards that should be answerable. More often

than not, however, board directors and trustees have assumed their positions without any real appreciation of the duties and responsibilities they may be called upon to perform. This difficult position is further exacerbated by the fact that in the majority of cases trustees receive no remuneration for their efforts (and are therefore not particularly accountable), rarely have contracts of employment, are not appointed with any significant degree of competition. By and large they have an expectation of good times rather than bad and are there to enjoy the perks of the position and the esteem in which they are often held.

The result of all this, in my experience, is an overall unwillingness (or perhaps even inability?) to commit either the time and energy, or make the difficult decisions, demanded of them when an organisation cascades into crisis. Taking big and difficult decisions relating to senior appointments, staff cuts and budget constraints is not fun at the best of times, but when someone has taken on a position in the expectation of champagne and free tickets to premieres, the task can come as even more of a shock.

So what needs to change? Sir Adrian Cadbury's work in this area (once again directed largely at the



corporate sector) is very clear. He states;

...the company should revolve around the board, which under the guidance of the chairman should establish priorities and values and see that executives put them into practise.

This simple, clear advice, so easily understood in theory, is conspicuous by its absence in the museums, galleries and other cultural and visitor organisations in this country. The norm is one characterised by a significant degree of dislocation between executives and non-executives, and precious little trust and co-working. At best, CEOs see their boards as a necessary evil, at worst as a crowd of meddling busybodies with too much free time on their hands.

Improving the quality of corporate governance in the sector is not something that can happen overnight. But there are a series of key steps that can be made to improve matters. In the first instance, the relationship between executives and non-executives needs to be better structured. Trustees must be appointed using a transparent process in response to the specific needs (gaps)

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in the organisations skills base, should be paid for their efforts, and should have their appointments enshrined in a contract. Furthermore, they should have a time-limited tenure, so ensuring a healthy degree of churn within the organisation. Above all, a board of trustees must be firmly guided by an experienced chair, must develop a deep understanding of their executive team, the organisation and the challenges it faces and in the final analysis, be prepared to take difficult decisions in pursuit of success.

Once a board has embraced the notion that, as directors, they are culpable for its performance, it is a much smaller step to direct action. In turn, once a CEO realises that the board has teeth, their incentive to perform, eradicate waste and mismanagement and develop a strong, close relationship with the Chair is vastly increased.

If we look to the US (where things are always a step ahead), non-profit boards are likely to be more

representative of funders (be they an individual or an agency). There, boards see themselves as owners with a significant duty of care. This immediately knits them more fully into the business and whilst this may cause more frequent clashes with the executive, it also has the positive effect of bringing business savvy to bear more frequently, as board members try to influence decision-making and protect their investment.

Whilst the private sector approach, either here or in the US, to corporate governance is far from a panacea, as the events of the Enron scandal would evidence, there is much to be learned from a sector, that despite being under continued global scrutiny, performs remarkably well. Non-executive directors and CEOs in the corporate sector are under intense pressure, and with this pressure comes improved performance: in the cultural and artistic sector which of us wouldn't want a little bit more of that?