

## Interview — Bob Garratt: A call for rethinking what we mean by governance

by ZILLA EFRAT

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The 1992 Cadbury Report on corporate governance was a game changer and has been copied internationally in varied forms. But according to international governance consultant, Professor Bob Garratt, it was structurally flawed in some ways.

First was the notion that a written code would resolve all directors' issues as they tried to ensure their organisations' future effectiveness. Plus, it was immediately associated with the financial sector only, because it had been sponsored by the Institute of Chartered Accountants of England and Wales and the London Stock Exchange.

'The assumption ever since 1992 was that corporate governance must be a finance and accounting- based activity,' he says.

'There are 400 codes around the world that are very similar to Cadbury's original report and they all make that assumption.'

In his new book *Stop the Rot: Reframing Governance for Directors and Politicians*, Garratt calls for a reframing of what we mean by governance and a move 'back to basics' following a string of scandals in the UK at organisations like Carillion, Oxfam and BHS.

He says he wrote this book because of 'a mixture of deep frustration and growing anger'.

'As a professor of corporate governance who works in many different countries, I kept being asked why don't you have something constructive to say about all these terrible things that are going on. We have more and more examples of corporate bad behaviour and we also see it in government departments, and charities. The book was my response.

'The anger was about the complete lack of interest at both the government and corporate level about the things that already exist that can be used.'

Garratt, who also previously penned *The Fish Rots from the Head*, says Cadbury encouraged him to write his latest book.



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In his last letter to Garratt, Cadbury, who passed away in 2015, advised him that when writing the book to 'ensure strongly that you focus on the entrepreneurial, risk taking aspects of good governance and not the codes and compliance aspects that are now crippling it'.

Indeed, Garratt believes governance is no longer focused clearly on directors delivering healthy long-term organisational performance. Instead, it has become a self-serving cottage industry populated mainly by accountants, regulators, risk-averse 'risk managers', politicians and 'good hearted but deluded CSR experts'.

Cadbury also suggested the book should push for a move away from a financial/accounting focus of governance.

Garratt explains that governance in the UK falls under the Financial Reporting Council (FRC) and is overseen by an FRC sub-committee. That means it doesn't cover 95 per cent of UK organisations such as private companies, state-owned enterprises and agencies, not-for-profits, partnerships and co-operatives.

'The FRC has the right to bar accountants, but has no right to debar directors,' says Garratt. 'The only organisation that can debar directors is the Insolvency Service. That's a nonsense. It only gets involved way down the track when a company is going insolvent,' says Garratt.

In his book, Garratt argues for the establishment of a separate corporate governance reporting council that covers all entities.

'This council would be a national institution which would have to include not only the directors who usually get blamed for everything, but also the owners, regulators and legislators,' he says.

'We would need to create a system that brings these four parties together on a regular basis and above these four parties, we need a fifth party, the public oversight, and that should be done by a standing commission, set up by Parliament. And, this council should have the right to bar directors.'

Garratt believes the disjointed responses to an angry public in the wake of corporate scandals have resulted in a series of unhelpful regulations, made worse by their thoughtless application.

He says about 90 per cent of governance regulations are redundant and the law, as it stands, is sufficient to promote a properly run governance system.

If there is to be a code, he says it should be based on the seven general duties of a director, which are not mentioned in any code and while bleedingly obvious, are relatively unknown by most directors and the politicians who legislated them.

He says these seven duties, contained in the UK's 2006 Companies Act, are the cornerstones of effective governance, spell out the fundamental roles of any director of any type of organisation and have been copied by many countries, especially those in the Commonwealth. They are:

1. To act within their powers (their constitution).
2. To promote the success of their company.
3. To exercise independent judgement.
4. To exercise reasonable care, skill and diligence.
5. To avoid conflicts of interests.
6. Not to accept benefits from third parties.
7. To declare interests in proposed transactions.

Garratt says the corporate governance reporting council would ensure that these seven duties are understood and entrenched in the selection, induction, assessment and developmental process of any director.

'Organisations would conduct an annual review of the quality of their boards and each individual director in relation to those duties. They would then report to the council and the council will have oversight of this.'

'It's already meant to happen roughly like this in the UK, but it rarely does. Companies are meant to have their own internal review which is normally pretty basic. But every third year, they are meant to use an external party to conduct an independent review of the board performance.'

'But what happens is that the big organisations, including some government agencies and charities, tend to use — surprise, surprise — the big four accountants. So, there is potential for massive conflicts of interests, or for the whole thing to get accountancy focused again.'

Garratt's new book also contains an entire chapter on values and culture that also goes back to basics.

'Everyone is talking about these, but most people haven't a clue what they mean and none of the codes specify what they mean,' he says.

He believes that most people in most organisations are conflicted by three different sets of values.

Firstly, there's what we do around here — that is, the day-to-day working values of an organisation and in the worse cases, also includes 'what we do when no one is looking'.

'Often in contradiction of these values are the corporate governance values specified in the law and governance codes. And then, in contradiction possibly to those two are one's person values.'

‘Isn’t it interesting how stressed a lot of directors are because their personal values are often in part in contradiction to what they are actually doing and in part in contradiction to what the corporate governance folk are talking about?’

When working with boards around the world, Garratt again goes back to basics and spends a lot of time going through the words of the late US anthropologist Clifford Geertz.

Geertz defined culture ‘as a historically transmitted pattern of meanings embodied in symbols, a system of inherited conceptions expressed in symbolic forms by means of which men communicate, perpetuate, and develop their knowledge about and attitudes toward life. [That is, the what we do around here part and the symbols found in the organisation].’

Geertz continues: ‘Man is an animal suspended in webs of significance he himself has spun.’

‘So, we actually create this culture, often unthinkingly, and then we are trapped by it,’ explains Garratt.

Garratt believes understanding anthropology is vital to understanding culture. ‘Certainly, no medium level civil servant trying to write a corporate governance code is going to understand what culture means even though he or she knows it is must be a good thing.’

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Professor Garratt is also a visiting Professor at Cass Business School, University of London, and Professor Extraordinaire at the University of Stellenbosch in South Africa, where he is chairman of the Centre for Corporate Governance in Africa.

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