

# BUSTED: GOOD GOVERNANCE

Our regular columnist Harry Onsman takes a look at the consultant myths

IMPROVING corporate governance in Australian companies is truly a happy hunting ground for consultants. Recent company collapses here and overseas have focused boards and managers on what they need to do better from a governance perspective. This launched a new career path for local and international consulting groups.

Unfortunately, this field is rife with myths about the effect of good governance on corporate performance. In fact it is difficult to find any research support for the majority of corporate governance tenets that are now generally accepted as received wisdom.

Even a little scratching below the surface reveals a stark contrast between what is generally held to be true and what the research reveals. I've taken only a few of the more common governance practices cited as good for business performance but could find no substantial evidence they are good for companies or shareholders.

This situation is much exacerbated by those consulting groups that rate companies on their governance practices. The idea of using "metrics" (essentially box-ticking exercises) to assess good governance in individual companies is largely based on the above-mentioned received wisdom. The fact that much of this wisdom is not backed by research, and some of it is just plumb wrong, has hardly impeded the workflow to the consultants.

One excellent summary of the lack of substance in this debate is provided



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by Jeffrey Sonnenfeld, from Yale University. In a recent review of the myths that drive governance assessment, the example of Enron's exemplary governance practices keeps shining through.

Here are a few of the myths outlined by Sonnenfeld that keep consultants busy:

❖ **The directors' age myth:** There is no evidence that age impedes a director's effectiveness. Indeed, there is some general evidence from psychological research that age enhances strategic judgment.

❖ **The split CEO/chairman myth:** There is no research to back the view that having separate CEOs and board chairs will enhance good governance. In almost every recent well-known example of corporate collapse through corruption or malfeasance, this division of accountability was in place.

❖ **The directors equity myth:** There is some

evidence to suggest a link between directors having a stake in the business and its performance. But some of the most spectacular governance failures also involved large directorial equity – think Enron again.

❖ **The former CEO myth:** Having a former CEO on the board can lead to a lower score from governance ratings firms. Again, there is no evidence that this is a negative and many examples that appear to contradict this view.

❖ **The independent board myth:** Having a majority of independent directors is typically seen as an advantage, but in fact it is correlated with lower corporate performance in some studies.

❖ **The "being there" myth:** Many organisations feel obliged to report the attendance record of directors, their accumulated experience as directors, or the size of the board. No one has ever established

a link of any kind between such factors and corporate performance. (Yes, Enron's directors had a near-perfect attendance record too.)

❖ **The financial expertise myth:** Many organisations trumpet the financial expertise of their board, but again this provides little protection against corporate failure. (Enron had a finance professor and a Stanford Business School dean on its board.)

The received wisdom about how to improve governance does little for business performance, and possibly hinders it. Shareholders beware.

*References: J. Sonnenfeld, "Good governance and the misleading myths of bad metrics", The Academy of Management Executive, 2004, Vol 18, No. 1.*

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Life is so much easier if you just have a half a dozen to eight people on the board and half a dozen to eight on the executive team.

Not every CEO thinks that. I didn't think that five years ago. I spent two years with 12 or 13 direct reports before I got religion. The company has performed better, I've had a much less stressful life, and I've stopped doing other people's jobs for them. A small team has really worked for me. What happens when you have a big board or a big executive team is that it's really hard to avoid an A and a B team.

Theresa Gattung, CEO of Telecom NZ, at a recent AFR BOSS Club event. Read the full transcript at [www.afr.boss.com.au](http://www.afr.boss.com.au)