



# Questions directors should ask before ASIC does



By Michele Levine  
CEO of Roy Morgan Research

The recent demise of the Governor General showed that Australians hold certain values dear. Company directors should take note.

Corporate collapses and unfair payouts to failed senior executives appear to be top of mind for Australian shareholders and the general public.

There is also a concern following the dramatic events surrounding HIH, AMP, and Pan Pharmaceuticals that there are likely to be more of these problems in the near future.

Did the collapse of HIH, Ansett, Pan Pharmaceuticals and others raise questions in every boardroom around Australia? I hope so. Did every director ask, "could that be our company?" "How would I know?" or "what would I do if I suspected something?"

Over the last year Roy Morgan Research has interviewed more than a thousand company directors to establish their views on the economy, government and social issues for a report titled *The Director Segment*. In depth interviews with highflying, successful directors, as well as shareholders and the general public have looked at responses to the collapse of former high profile companies.

Australian company directors feel unsure about their capacity to protect shareholders against mismanagement and deceit

in the corporate boardroom. There is wide agreement that accurate, complete information is very important for good governance and it is accepted that company directors should crosscheck that information is correct rather than rely upon the CEO or senior management reporting to the board.

They believe that the large corporate governance failures arose from pressures to get too big too quickly, without adequate information systems and adequate measures of accountability.

Directors interviewed see their prime accountability as first to their shareholders, followed by customers and employees. They see the responsibility to achieve good growth and good returns leading to acceptance of higher risk ventures.

According to the report, the role of the board is seen to be "setting future strategies and ensuring future sustainability and profitability of the business," rather than ensuring that the business is "sound financially, and in terms of compliance with all regulations." However, most directors say they believe that in practice, "most time and effort is placed on ensuring the business is sound financially and on compliance issues."

It is accepted that the board must have the capacity to critically review all sides of every issue and see the big picture, trends and patterns. Business leaders also value and support the need for boards to be independent of day-to-day management.

However, they are unsure where they can get accurate, timely and correct data that would assist them in asking better questions as board members. "The key is information - you need to



Courtesy photo



know information is correct and complete. The CEO is critical – you need to rely on information from the CEO, and to be able to put questions to the CEO and expect them to be answered. If the CEO or senior management is corrupt or cheating, it is very hard for company directors to know." Advice from one company director was clear: "Make sure you have a down to earth and honest MD."

The values and beliefs of the directors as individuals are not aligned with the values required in rapidly growing, shareholder and analyst oriented corporations. As individuals, directors personally seek high levels of security in their own investments.

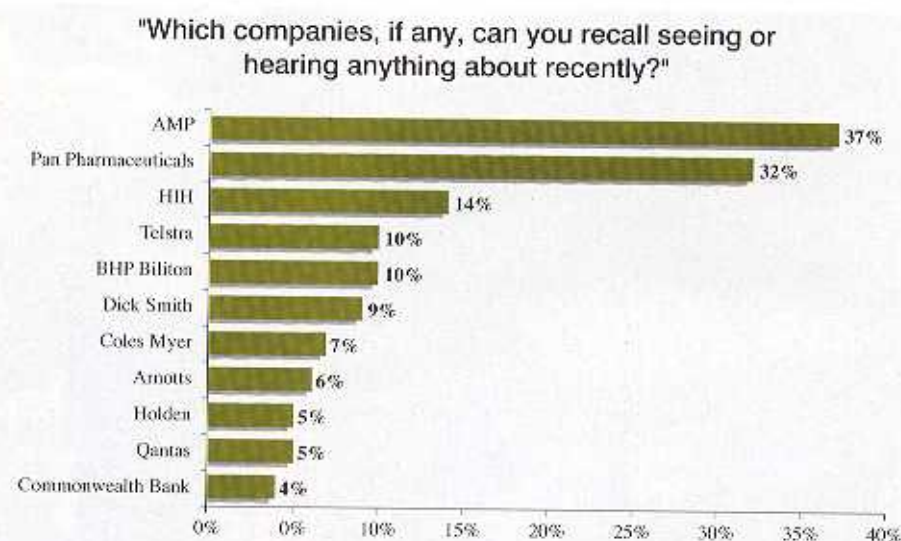
Eighty three per cent prefer to invest in something with a high return, 79 per cent say it is important that they have responsibility at work and 72 per cent see success as important. Yet they see that shareholders demand growth. As one director put it, "the shareholders wanted to look at something bigger and brighter, did not look at conservative options... the shareholder culture needs to be changed."

Directors see themselves as more introverted (58 per cent) than extroverted (39 per cent), are committed to supporting Australian companies – 77 per cent try to buy Australian products – and are uncomfortable with intellectual studies.

Their primary sources of information on other companies are the two national newspapers and business television programs that keep them generally informed about business conditions. Few say they always read the business section of the newspapers.

Against this background, many of these high profile leaders of industry and commerce are unable to see what questions they could ask their managers which would assist them to maintain higher standards of corporate trust and integrity, and find it difficult to see what else they could do to make large companies more accountable to their shareholders. They also see themselves as powerless to prevent the collapse of large companies that have not focused sufficiently on corporate performance.

However, some recognised the need for



non-executive directors to come out of the closed "loop of close friends" into the "open loop" of better information and the wider values of society at large.

The board should aim to create critical channels through which relevant

information is more fundamental, and rooted in society's needs, wants, and expectations. It's about values – society's values, directors' values, board values, corporate values, and how these complex sets of priorities come together.

## Did the collapse of HIH, Ansett, Pan Pharmaceuticals and others raise questions in every boardroom around Australia?

information of all kinds can travel. "Direct communication with staff and representatives" is necessary, as is "stronger and more focused communication with all levels of the company and the community". As one director put it, "non-executive directors need to be a company's 'eyes and ears', not just a voice."

And finally, despite clear uncertainty about how they will go about it, it is

## Australian company directors feel unsure about their capacity to protect shareholders against mismanagement and deceit in the corporate boardroom

recognised that directors have a moral obligation to do something about the problems in their organisations.

As another director said, "board directors can do anything. They can speak to anyone in the company, read anything, make any enquiries they need to make to be fully informed, and then act."

The ASX and now Standards Australia have articulated their protocols for good corporate governance. But the real debate

is more fundamental, and rooted in society's needs, wants, and expectations. It's about values – society's values, directors' values, board values, corporate values, and how these complex sets of priorities come together.

If we consider the Governor-General as the ultimate non-executive director, then the values of Australians and their expectations of directors are clear. Australians want honesty, integrity, compassion, willingness to work, morality, responsibility, intelligence, good communication skills, wisdom and humility from their Governor-General - the very same qualities society requires today from directors.

According to Roy Morgan Research, Australia did not want a "puppet" or a "figurehead" as Governor-General. Australians are not comfortable with the Governor-General as an "overhead", with no real value, no real role. Nor will they accept that from directors.

The new ASX rules and Standards Australia guidelines too are a response to the changing demands of society – a better educated, more critically involved, more uneasy, disillusioned, and critical society than ever before.

Quality directors who are courageous enough for the important roles in this changing environment must now engage in the process of building the necessary infrastructure within which they can truly fulfil the duties and responsibilities of governance that society will increasingly expect from them. ■