PRACTICES

Red Alert

Organisational practices of Wirecard and Boohoo have been put under the spotlight recently

Bernadette Young

The demands of governance can sometimes feel contradictory – leadership versus control, weighing entrepreneurialism against risk management, delivering long term success whilst needing to meet short-term targets. Board decisions are therefore often finely balanced judgements, juggling many factors, frequently based on imperfect information. It is therefore unsurprising that sometimes the scales tip in the wrong direction and decisions subsequently prove to be poor.

When things go catastrophically wrong, a major corporate collapse, for example, there are always predictable calls for lessons to be learned. In fact, most of the major corporate governance reviews that have been undertaken, including and since the Cadbury Report, have largely been a reaction to some corporate failure or other. One would hope that the outcomes of all these reviews and developments in codes, recommendations and regulation, inch the governance community ever closer towards stronger practice and enhance our ability to provide even better support to our boards. But there are other learning opportunities which we should also grasp.

In recent months there has been several high-profile cases where organisations, previously lauded for their achievements, have in some way or other fallen from grace. I am thinking, for example, about the discovery that the treatment of workers in some of the Leicestershire factories which supplied Boohoo did not meet minimum standards, the audit findings which showed that €1.9bn of Wirecard 'assets' did not exist, and the disturbing claims that Team GB's success in gymnastics has been achieved through the use of abusive training tactics.

These examples have two things in common. Firstly, they all involve organisations which were seen as highly effective. Wirecard and Boohoo had a track record of delivering stellar growth for their investors and the GB gymnastics team had turned itself around and had been consistently winning numerous medals in international competitions over several years.

The second theme which these three cases all have in common is that warning signs were missed. It is claimed that Boohoo failed to act upon audits of various factories which raised issues about workers' pay over a period of four years. In the case of Wirecard, concerns publicised by investigative journalists in January 2019 about falsification of accounts, money laundering and so-called 'round-tripping' were denied and dismissed by the company. Claims of abuse against British Gymnastics coaches were, apparently, not adequately dealt with over a number of months before they became public.

These cases remind us that with high achievement comes greater risks of complacency and blind spots. Boards must continue to enquire robustly, their belief in management needs to remain realistic and, even when everything seems to be going swimmingly, they should not dismiss concerns too easily. Boards cannot afford to become dazzled by the success that is being achieved. They need to remember that the Midas touch is just a myth. No business is immune from risk and sometimes, if growth and profits come easily and quickly, that in itself may be a red flag that something is too good to be true.

But, as governance professionals, we do not need to wait for a major external incident to refine and develop our understanding and practice. For anyone who has worked with boards for any period of time, there will inevitably be various instances you will recall where decisions, whilst not resulting in a terminal outcome for the business, have, over time, proved to be sub-optimal. The assumptions and evidence used to make the original choice may not have been as robust as they were believed to be at the time, or an unforeseen risk may have emerged that derailed the execution or success of the relevant enterprise or project. Whether it was acquisition of another business which didn't deliver the projected benefits or the introduction of a new IT system that overran on time or costs, organisational history is littered with lessons upon which we can draw.

These all offer great chances to learn and grow. Look back at the original board reports with the benefit of hindsight – what did they miss, did they present an unrealistically optimistic business case, did they consider other alternatives, were risks and the range of potential outcomes comprehensively explored, was too much weight given to the opinions of a single adviser?

Boards are, ultimately, just a group of human beings and none of us is infallible. But the more we can do to learn from past mistakes and others' misfortunes, the more likely that we will be able to ensure our boards are presented with the transparent, thoughtful and balanced information about the business, its prospects, culture and risks, they need to make good decisions.

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