

CIMA responds to the **Walker Review** on corporate governance in the UK banking industry

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Response to the Financial Reporting Council

We have submitted a substantive response to the Financial Reporting Council’s (FRC) call for views on the effectiveness of the Combined Code which is available at www.cimaglobal.com/resources and we believe that the points made are equally relevant to this banking review. In addition to recommending a number of changes to the Combined Code, a key message of the submission is to emphasise the need for robust research to ensure that there is a clear evidence based understanding of what went wrong from a governance perspective to create the financial crisis and to ensure that the subsequent policy response is appropriate and effective. What seems apparent, however, is that there will need to be particular emphasis in the financial sector on enhancing the specialist sector knowledge and increasing the time commitment of the non-executive directors – as detailed in action 23 of the Turner Review.

Report leadership

In addition, as a member of the Report Leadership Group along with PricewaterhouseCoopers and the communications consultant, Radley Yeldar, CIMA has participated in preparing an additional response to your review which focuses on the importance of reporting on governance. This response has been sent to you separately by the Report Leadership Group, but is also available as Appendix 3 to our submission to the FRC.

There is a need to go beyond the compliance narrative in governance reports and focus on the tell-tale signs of whether good governance is working. One sign is a company’s overall commitment to transparency and its ability to present a joined-up picture of the activities which are critical to corporate success. In particular, a company’s ability to:

- Explain its strategy and provide evidence that it is grounded in a real understanding of the market(s) in which it operates and the factors that will impact it across the economic cycle.
- Explain the dynamic of the business model and the key risks and relationships to which it is exposed.
- Articulate its risk appetite and how this is reinforced by the tone from the top, the cultures and behaviours of the organisation and the structure of remuneration and incentive schemes.

We strongly believe that the public provision of such information will lead boards to ensure that they have the necessary high quality management information. To the extent it does not, then implementing improved transparency and communication, as promulgated by the Report Leadership Group, should significantly improve the information set presented to the board and so improve evidence based decision making.

The financial sector

Turning to the financial sector in particular, CIMA endorses the view, perhaps best expressed in the Turner Review, that there has been a major systemic failure in the system of banking regulation. But while there needs to be a fundamental overhaul of financial sector regulation both in the UK and internationally, we believe that there were also significant corporate governance failings in financial sector institutions that need to be addressed. As pointed out in our submission to the FRC, however, it is essential that there is robust research to establish whether these failings are characteristic of the rest of the corporate sector.

Response to the Walker Review

We understand that the intention of the review is to present three options, setting out the potential strengths and weaknesses of each option and then inviting comment on each option. CIMA believes that these options should be underpinned by high level governance principles. We suggest that these should include the 12 governance principles, which have been developed by the Professional Accountants in Business Committee (PAIB) of the International Federation of Accountants (IFAC). We have listed the principles in Appendix 1 of this submission.

As a member of the PAIB committee, CIMA has been actively involved in the development of these principles which form part of PAIB’s International Good Practice Guideline *Evaluating and improving governance in organisations*. This guidance was based on earlier work which entailed a series of case studies on the major corporate failings in the early years of the century, such as Enron, WorldCom and Marconi and the results were published in a 2004 report, *Enterprise governance – getting the balance right*. The results of the case study analysis remain informative and are attached as Appendix 2. We believe that many, if not all, the lessons from this work remain pertinent. For example, some of the issues featuring high on the list of contributing factors to ‘what went wrong?’ are: dominant CEOs within organisations; ethics/culture/tone at the top; risk management and mergers and acquisitions.

In addition to these principles, we believe that the following issues should be considered:

The effectiveness of risk management at board level, including the incentives in remuneration policy to manage risk effectively

- **Stress testing of the business model is crucial** but the board must obtain assurance that the proposed mitigation plan will actually work in practice. Whilst the regulator is the obvious focal point for systemic risk, individual banks should take into account externalities and network effects in understanding where critical risks may lie.
- The board must ensure that it is in a position to challenge strategic proposals constructively and knowledgeably. The ultimate acid test, however, is that the **board should not take risks that it does not understand**. It might be useful for the review group to consider additional guidance – such as a decision tree – for boards when they are looking at new major product or strategy proposals. This would include guidance on appropriate questions to be asked on stress testing. This is particularly relevant in the financial sector where innovation breeds complexity.
- **The risk management function must be as independent as is practical and, as importantly, its status must be improved.** The Turner Review refers to independence in its action 23 but status is also highly relevant. As Andrew Haldane of the Bank of England remarked in a recent speech 'Decision making within firms is an arm wrestle between risk and return, between risk managers and risk takers. When returns are high and risks appear low, this arm wrestle can become one sided. Power switches from back to front offices and risk managers become the poor relation.' The CIMA Professor of Accounting and Financial Management at the London School of Economics, Wim A. Van der Stede, has looked at the related topic of risk management through the business cycle and the need for 'healthy scepticism when performance is strong'. An article on this topic was published in CIMA's magazine *Financial Management* and this is attached as Appendix 3. Lastly, albeit anecdotal, a reference was made in a recent *Financial Times*¹ article to risk managers being referred to as 'business prevention departments' in some banks.
- **Organisations must perform their own due-diligence on products** and not simply 'outsource' to organisations such as the credit rating agencies which have long been known to be exposed to conflicts of interest.
- Recommendation 15 of CIMA's response to the FRC suggests that the code should have more explicit mention of the need to base rewards on long-term sustainable performance. In the financial sector there is a need to **ensure that reward and risk are sensibly in balance across all stakeholders.**

- There has been much discussion about dynamic provisioning and economic cycle reserves. The Turner Review states that the FSA view is that 'the counter cyclical approach to bank capital is reflected in a significant way in highly visible published account figures'. There are clear links to remuneration and incentive-based pay systems referring to profit. CIMA will respond to any detailed proposals in due course but is of the view that **counter cyclical provisions should not be implemented in a way that impacts the profit and loss account** of a company. Pay incentives do not have to be based on the profit as shown on the face of the profit and loss account. The principal user of the financial statements is the investor and the integrity of the accounts should be preserved. Prima facie, in terms of long-term sustainable performance, incentives are likely to be best based on profit after appropriations to an economic cycle reserve.

The balance of skills, experience and independence required on the boards of UK banking institutions

- The board must ensure that **all perspectives receive an appropriate hearing**. The finance director, for example, has a unique overview of the organisation and should play a key role in providing both information and offering a constructive challenge. Unlike other corporate sectors where the FD has a particularly distinctive role in comparison to a store retail director, we are concerned that there is a risk in financial institutions that this crucial challenge role of the FD is diluted because 'we are all finance experts'.
- In **CIMA's recommendations regarding the Combined Code** there are proposals on directors' duties and the creation of long-term sustainable value (recommendation 6); additional guidance on prior qualifications and experience for NEDs (recommendation 7); reinforcing the requirements for board balance (recommendation 8); strengthening the board evaluation process (recommendation 9); emphasising the need for greater connectivity between board and management (recommendation 10); greater emphasis on the role of the chairman and company secretary (recommendation 11); supplementary guidance as to the scope of information that directors might consider (recommendation 12); annual consideration of the need for dedicated resource for NEDs (recommendation 13); and encouraging constructive challenge (recommendation 14). All of these are also relevant to the financial sector and are set out in more detail in the enclosed CIMA response to the FRC.

¹ Financial Times, 21 April 2009, Banks invest in compliance and risk monitors.

The effectiveness of board practices and the performance of audit, risk, remuneration and nomination committees

- There is a risk that the individual sub-committees act as if they are separate silos of activity. There may need to be more explicit thought given to how and when **there needs to be more effective interaction between the sub committees and with the board itself**. This is particularly so between the oversight of risk management (through a Risk Committee and/or Audit Committee) and the oversight of pay and bonuses through the Remuneration Committee. It would seem that insufficient attention has been given in many companies to how risk should be factored into decisions on remuneration and, similarly, how remuneration structures can compound risk.
- There may be a **tendency in a regulated industry for directors, particularly non-executive directors, to be less 'on-guard'**. If the organisation is complying with the regulatory ratios and the right boxes have been ticked then there may be a tendency to be less challenging and inquisitive. This is in the context of a non-scientific approach to most regulatory ratios and in an area where innovation can be far ahead of the regulator. This innovation takes place in both product (e.g. Collateralised Debt Obligations) and in structure (e.g. Special Purpose Vehicles).
- The board needs **high quality management information** which highlights the important issues in a timely manner. Use can be made of management accounting tools, techniques and frameworks. The Balanced Scorecard and the Strategic Scorecard (which CIMA has developed) are examples.

The role of institutional shareholders in engaging effectively with companies and monitoring of boards

- As detailed in the separate letter from the Report Leadership Group we see reporting as having an important role in effective governance, an area to which, we believe, insufficient time and attention has been devoted over the past decade. In particular, we would highlight that the quality and scope of information available is a critical determinant of:
 - how well a company is managed by its executive team
 - whether non-executive directors are in a position to exercise effective governance
 - a company's ability to communicate externally on its operating environment, its strategy and performance and the key strategic risks and opportunities it faces
 - whether shareholders are in a position to exercise effective oversight and to engage with the company on the issues that matter.

Accordingly, we believe that it is essential for the issues of governance and reporting to be considered in parallel. Importantly reporting can be used as an effective catalyst for changing behaviours without the need for a lot of detailed regulations. Therefore, we believe a key recommendation coming out of the Walker and FRC Combined Code reviews should be for a **fundamental review of the reporting model** with the objective of understanding how it can be enhanced to support more effective management, governance and shareholder oversight. CIMA has long been an advocate of narrative reporting and is encouraged that the IASB is due to publish an exposure draft of guidance on the management commentary in June.

- CIMA strongly supports the 'comply or explain' regime. However, this will only work effectively with a proactive investment community who are willing to accept sensible and appropriate 'explanations' rather than perform a 'box ticking' role.
- In CIMA's response to the FRC, we refer to the **different landscape of institutional shareholders** beyond the traditional pension funds and mutual funds – such as sovereign wealth funds, hedge funds, private equity funds and the state. Each of these owners might have different investment horizons and objectives. We suggest this is a topic that merits further analysis and discussion.
- Some have called for a return to the Glass-Steagall approach of separating the 'utility' bank from the 'casino' bank whereas others have suggested that this is not the right approach – including Lord Turner. CIMA believes that it should not perhaps be such a bipolar debate. For example, a radically different model has been proposed by Professor John Kay (Chapter 17, *Verdict on the Crash: Causes and Policy Implications, Institute of Economic Affairs*). In his words 'Instead, structural rules should firewall the utility from the casino, by giving absolute priority to retail depositors (or the institutions that protect retail depositors) in the event of the failure of a deposit taking institution. The players at the casino can then make such rules (or none) to govern their own activities as they think appropriate. Those who contract with the casino – on the whole sophisticated players in the financial system – would be aware of the risks of their contractual claims being sub-ordinated to those of the utility part of the conglomerate'.

Whether the UK approach is consistent with international practice and how national and international best practice can be promulgated

- It would seem that the financial sector in some countries such as Spain, Canada and Australia has not suffered as severely as in other countries. In line with our wish for robust research we suggest there may be merit in trying to understand why this has been the case and whether there are any lessons for governance within the UK banking industry.

CIMA looks forward to responding to the consultation document to be published in summer 2009.

Appendix 1

The key principles of evaluating and improving governance in organisations

- A. The creation and optimisation of sustainable stakeholder value should be the object of governance.
- B. Good governance should appropriately balance the interests of stakeholders.
- C. The performance and conformance dimensions of governance are both important to optimise stakeholder value.
- D. Good governance should be fully integrated into the organisation.
- E. The governing body should be properly constituted and structured to achieve an appropriate balance between performance and conformance.
- F. The governing body should establish a set of fundamental values by which the organisation operates. All those participating in governance should embrace these fundamental values.
- G. The governing body should understand the organisation's business model, its operating environment, and how sustainable stakeholder value is created and optimised.
- H. The governing body should provide strategic direction and oversight in both the conformance and performance dimensions.
- I. Effective and efficient enterprise risk management should form an integral part of an organisation's governance system.
- J. Resource utilisation should align with strategic direction.
- K. The governing body should periodically measure and evaluate the organisation's strategic direction and business operations, and follow up with appropriate actions to ensure appropriate progress and continued alignment with objectives.
- L. The governing body should ensure that reasonable demands from stakeholders for information are met, and that the information provided is relevant, understandable and reliable.

Extract from International Good Practice Guideline, *Evaluating and Improving governance in organisations*, Professional Accountants in Business Committee of the International Federation of Accountants, 2009.

Appendix 2

Enterprise governance – getting the balance right

In conjunction with the International Federation of Accountants (IFAC) CIMA undertook a series of case studies to investigate what could be learnt as a consequence of the corporate failings at the turn of the century when significant amounts of shareholder value were destroyed by organisations such as Enron and Marconi. The findings were published in a 2004 report, *Enterprise governance – getting the balance right* and we have summarised the key lessons below.

Preventing failure

Corporate governance – key issues

The 2004 enterprise governance case studies highlighted the following four factors that were instrumental in preventing failure:

- Culture and tone at the top – in particular, the need to ensure that the messages provided by senior management reinforced appropriate behaviours in practice. In the case of Enron, for example, although the board emphasised ethics and codes of conduct, employees quickly learned that these were not reinforced and what really mattered was rapid growth and bottom-line earnings.
- The chief executive – there were numerous examples of chief executives who exercised unfettered power and who pursued ambitious strategies with little restraint.
- We also found cases where the board of directors proved inadequate and failed to provide sufficient oversight of the chief executive and the management team.
- Weak internal controls.

Achieving success

Strategy – key issues

The study also considered strategic issues and the following were instrumental in achieving success:

- choice and clarity of strategy
- strategy execution
- responsiveness to abrupt changes, fast moving market conditions, information flows
- competency in mergers and acquisitions
- effective risk management.

As a consequence of the study, we identified key issues for more detailed research:

- strategic oversight and board performance
- risk management.

The research that was undertaken as part of this project involved a series of case studies covering ten countries and ten market sectors. The table below illustrates some of the outcomes of an analysis of these case studies in terms of specific corporate governance and strategic issues.

This is not a comprehensive listing of all the cases as the intention is to highlight the broad trends. The use of:

- is where this issue had relatively minor significance in the case study,
- indicated that the issue had moderate significance, while
- meant that the issue was of major significance.

An absence of dots does not mean that the issue does not exist e.g. in Table 1, it does not mean that Vivendi, Cable & Wireless and D Tripovich had no ethics, culture or tone at the top. It means only that the issue did not dominate the story of success or failure. In a similar vein, Table 3 does not indicate that Tesco lacks internal controls, but that the other issues simply featured more strongly in discussions of Tesco's success.

Table 1 – What went wrong? – corporate governance issues

	Ethics/culture tone at the top	CEO	Board of directors	Internal control/ compliance/ risk management	Aggressive earnings management
Ahold (Netherlands)	••	•••	•	•••	•••
Enron (US)	•••	•••	•••	•••	•••
WorldCom (US)	•••	•••	•••	•••	•••
Xerox (US)	•••	•••		•••	•••
Vivendi (France)		•••	••	•••	
Cable & Wireless (UK)		••	•••	•••	
D Tripovich (Italy)			•••	••	
France Telecom (France)	••	••	••	••	

Table 2 – What went wrong? – strategic factors

	Choice/clarity of strategy	Strategy execution	Market conditions	Abrupt changes	Mergers and acquisitions
Ahold (Netherlands)		•••			•••
Cable & Wireless (UK)	•••		•••	•••	•••
Marconi (UK)	•	••	•••	•••	•••
Vivendi (France)	•		•••		•••
France Telecom (France)	•		•••		•••
D Tripovich (Italy)		•••	•••		•••
Xerox (US)	•••				•••

Table 3 – What went right? – corporate governance issues

	Ethics/culture/ tone at the top	Board of directors	CEO	Internal control/ compliance/ risk management	Succession planning
Bangkok Mass Transit System (Thailand)	•••	•••		•••	
Southwest Airlines (US)	•••		•••	•••	•••
Tesco (UK)	•••	•••	•••		•••

Table 4 – What went right? – strategic factors

	Choice/clarity of strategy	Strategy execution	Responsiveness/ information flows	Mergers and acquisitions	Risk management
Li & Fung Ltd (Hong Kong)	•••	••	•••	•••	••
Southwest Airlines (US)	•••	•••			
Tesco (UK)	•••	•••	•••	•••	
Unicredit Group (Italy)	•••	•••		•••	••

Appendix 3
Enterprise governance article in CIMA's magazine, *Financial Management* (February 2009)

Wim Van der Stede, CIMA professor at LSE, explains why businesses should be more circumspect during a boom – and prepared to take risks when conditions get tougher.

'Companies tend to become complacent when business is good, letting their guard down when performance is meeting or beating expectations. But, when things are not going so well and targets aren't being met, they tend to overreact by tightening their belts too much. This is perhaps quite a natural reaction, yet it's also an outcome of the management-by-exception approach that most organisations use. This focuses on problem areas, assuming that all is well where targets are being hit. Some risk management practices also tend to do this, particularly quantitative tools (eg, value at risk) based on historical figures that tend to look best when they should be looking worst – i.e. at the end of a boom.

'As a business's performance goes through cycles, the level of management scrutiny tends to move inversely and asymmetrically to it. In other words, there is more vigour to combat contractions than there is sensible restraint or healthy scepticism towards unusually strong performance during expansions. While there may be plausible reasons for this, I am not convinced that it's good practice.

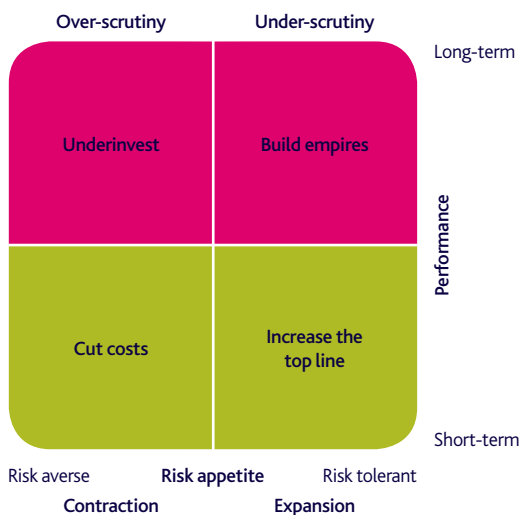
'Examples of lopsided performance scrutiny cycles are easy to find, particularly in the current downturn. Since the credit crunch began in August 2007, everyone has started to listen to risk managers again. Articles on risk management abound in the business press. In the immediate aftermath of a crisis we hear calls for government action. This was certainly true in 2002 following the collapses of Enron and WorldCom. These scandals spawned a slew of new policies and regulations on

corporate governance and risk management worldwide. But, once a crisis passes, the new rules bed down, the boom times return and the cautious tone changes. Shareholders start to enjoy high returns once again and the appetite for scrutiny of any kind quickly wanes or, worse, is dismissed as a drag on performance. Similarly, the tendency inside many firms to investigate an unusual profit is weaker than the tendency to investigate an abnormal loss. Yet there's evidence to suggest that unusually big profits are often where the seeds of future distress are sown. They may be a sign that managers have been taking too many risks or been excessively short-termist, particularly where scrutiny has been lax. The crisis in the financial services sector is a case in point. Whatever the industry's ills are blamed on, they are to some extent self-inflicted: too much complacency when things were great, leading to a failure to ask tough questions and challenge assumptions.

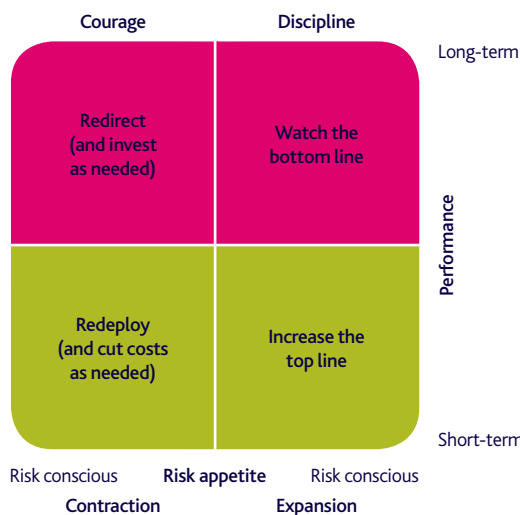
'Under-scrutiny often prevails during periods when there is a focus on the top line, driven by aggressive, rose-tinted growth plans, overconfidence and weak controls. It often results in empire-building through risky investments and ill-advised acquisitions. Over-scrutiny, on the other hand, is characterised by a tightening of the screws through cost-cutting, a clampdown on investments (even worthwhile ones), balance sheet 'clean-ups' and divestments (sometimes at huge discounts) driven by excessive risk aversion, over-compliance in the face of potential litigation and other stifling, protective attitudes. Clearly, neither situation seems ideal.

'On the right half of the matrix in figure 1 (below) companies are upbeat and overconfident when times are good and capital is readily available. Their tolerance for risk is high and they tend to emphasise growth through acquisition. This expansion may benefit the bottom line in the short-term as new sales come in and some cost savings have an immediate effect, while other

1. The yo-yo approach to risk and performance management



2. A better method: scrutiny throughout the business cycle



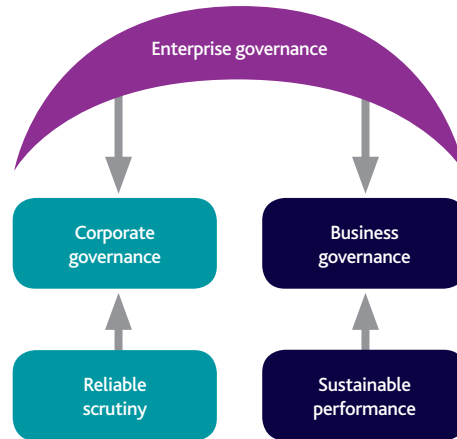
costs are amortised or 'taken out' as one-off items. But such empire building often earns substandard returns in the long-term – hence the use of the colour red for danger in the top quadrants of the matrix. Examples abound of aggressive acquisitions, built on hubristically estimated synergies, that fail to create the value that was promised. The time factor is clearly important here, so it is depicted along the vertical dimension of the matrix. The short-term effects of weak scrutiny and excessive risk-taking on performance are often good, which further discourages firms to question such an approach.

'On the left half of the matrix, when the going gets tough and performance is weaker than expected, companies often lose their appetite for risk. In order to tackle their performance problems they often go for the low-hanging fruit: they cut costs, reduce R&D and raise the hurdle rate for accepting capital projects, thereby often underinvesting in otherwise promising enterprises. Again, the results of such actions are often beneficial in the short-term, but they tend to hamper value creation, effectiveness and competitiveness in the long-term. Again, what might seem to be wise decisions may well come back to haunt the company. Risk aversion in this case, rather than hubris, can put the business in jeopardy.

'So how can companies have the discipline in good times to not overreach themselves and the courage in bad times to continue investing for the long-term? How can the process of scrutiny be calibrated through the business cycle so that it makes managers appropriately risk conscious? The matrix in figure 2, (shown on page 8) illustrates the recommended approach. Note that the colour in the top quadrants is still amber, denoting caution. This makes the point that companies should not seek to eliminate risk entirely. Measured risk-taking is crucial in driving long-term performance, which inevitably involves uncertainty. Risk is, after all, what drives a wedge between a good decision and a good outcome, where it must be accepted that even good decisions made under appropriate scrutiny and with sensible restraint will not always have good outcomes. My key inference, therefore, is that if we are willing to accept that calibrating scrutiny and performance throughout the business cycle is desirable, then performance and risk management really are two sides of the same coin. They should be considered in unison rather than subjugating the level of scrutiny as a mere reaction to performance fluctuations.

'Enterprise governance¹ is a conceptual framework – not a practical tool per se – that puts reliable scrutiny and sustainable performance under one umbrella, addressing how firms might think about the need to align both items in the short and long-term (see figure 3, above). It resonates with formal risk management approaches such as the enterprise risk management framework (ERM) developed by the Committee of Sponsoring Organisations of the Treadway Commission².

3. Conformance and performance



'The ERM's formal definition posits risk management as a tool to provide 'reasonable assurance regarding the achievement of entity objectives', which clearly marries risk ('assurance') and performance ('objectives'). By doing so with reference to risk appetite and emphasising 'reasonable assurance', it also suggests that risk is to be managed, not eliminated. As such, risk management is not only about ensuring that bad things don't happen, but also about ensuring that good things do happen. The ERM's definition also mentions the 'board of directors, management and other personnel', indicating that risk management should pervade the organisation rather than remain the concern of a few senior people. So, even though performance and conformance may be separable, they are not independent. It is hard to consider one without the other, especially if you're taking a long-term view.

'But research suggests that organisations still often treat performance and risk management separately. For example, one study found that companies implemented ERM as a reaction to regulatory pressure and corporate governance requirements³. They tended to do it not because it made good business sense, but rather because they felt obliged to. Yet, when asked about the benefits of adopting this approach to risk management, those same companies hinted primarily at performance benefits such as the ability to make better-informed decisions. Not surprisingly, they also mentioned some compliance benefits such as improvements to their corporate governance practices. They even mentioned some 'cycle-busting' benefits – notably: reduced earnings volatility and improved performance.

'So, although many firms have engaged reluctantly in risk management chiefly for compliance purposes, research suggests that the benefits of doing so have been mainly performance related. It also indicates that performance and risk management need not work against each other.

'I didn't set out in this article to assign blame for the financial crisis or to provide a 'how to' tool for handling downturns – there are no easy answers for such complex issues. But I do hope that I've highlighted some spasmodic tendencies that cause performance and risk management to become misaligned and may contribute, at least partly, to adverse performance over time. With this in mind, firms can consider ways to rebalance their lopsided performance scrutiny cycles. Daring to ask the tough questions – even when nobody else does because they are too consumed by their current successes – is a good start. In respect of the current crisis, it would have been good to ask such questions about whether 'millennium finance' really was the panacea it was thought to be.

'Those banks that decided not to invest in complex financial instruments whose risks were misunderstood were 'often pilloried for being boring', said Mervyn King, governor of the Bank of England, in April 2008, criticising the City of London's complacent attitude to risk. 'Boring' should perhaps be understood as 'appropriately prudent'. Healthy scrutiny should be encouraged throughout our organisations. Risk management is not only about structures and systems but also about organisational culture. If there is no healthy scrutiny in an enterprise, then everyone simply assumes that someone else has considered the risks – a common fallacy that will further inflate an economic bubble.'

Wim Van der Stede is CIMA professor of accounting and financial management at the London School of Economics (w.van.der.stede@lse.ac.uk).

Further reading

1. *Enterprise Governance: Getting the Balance Right*, IFAC/CIMA, 2004 (www.cimaglobal.com/enterprisegovernance).
2. *Enterprise Risk Management – Integrated Framework*, Committee of Sponsoring Organisations of the Treadway Commission, 2004 (www.snipurl.com/7qlb8).
3. Stephen Gates, 'Incorporating strategic risk into enterprise risk management: a survey of current corporate practice,' *Journal of Applied Corporate Finance*, Vol 18, No 4, 2006.

Appendix 4

The CIMA Strategic Scorecard™ – how boards can engage in strategy

An effective board of directors has the potential to be a considerable asset for an organisation. Board members can bring a wealth of experience and knowledge to ensure that the organisation is well led and helping to shape its future strategic direction.

However, cases studies undertaken as part of the IFAC/ CIMA enterprise governance project indicated that a key requirement for boards was to be able to oversee strategy effectively. But it can be difficult for boards to engage in strategy effectively due to:

- lack of time and crowded agendas
- information overload
- lack of robust processes at board level for dealing with strategy.

CIMA developed the CIMA Strategic Scorecard™ to address these difficulties. This gives the board of any organisation a simple, but effective process that helps it to focus on the key strategic issues and – most importantly – to ask the right questions. This means that the board can work constructively with management to ensure the future success of the organisation.

What makes the scorecard unique is that it pulls together all aspects of the organisation's strategy in a single document as it:

- Summarises the key aspect of the strategic position to ensure that the board is aware of changing economic and other factors.
- Identifies the major strategic options that could have a material impact on the strategic direction of the organisation and helps the board to determine which options will be developed further and implemented.
- Charts for the board the significant steps or milestones in relation to the chosen strategic plans to be achieved in the coming period and then tracks performance against these.
- Highlights the risks facing the board in its strategic endeavours and moves these into manageable opportunities or mitigation plans.

The CIMA Strategic Scorecard™ in outline

The CIMA Strategic Scorecard™ is shown below with its four dimensions.



Figure 1: The CIMA Strategic Scorecard™

For each dimension of the scorecard, the board is presented with summarised high-level information. By giving the board the 'big picture', directors can offer constructive, informed input; in return, they receive assurance in relation to the organisation's strategic position and progress. In effect, the scorecard provides an integrated and dynamic framework that focuses on the major strategic issues facing the organisation and ensures that the strategy is discussed at board level on a regular basis.

We have also found that the scorecard offers benefits to the organisation's management. The discipline of having to prepare and update the scorecard helps management to keep its focus on the key strategic issues and to refine its proposals prior to exposure to the board.

www.cimaglobal.com/strategicscorecard

References

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www.reportleadership.com

Report leadership – executive remuneration (CIMA/PricewaterhouseCoopers/Radley Yeldar, 2007)

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Report leadership – online reporting (CIMA/PricewaterhouseCoopers/Radley Yeldar, 2007)

www.reportleadership.com

CIMA Strategic Scorecard™ – boards engaging in strategy (CIMA, 2007)

www.cimaglobal.com/enterprisegovernance

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