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New International Study Explores Enterprise Governance; Recommends Actions to Strengthen Corporate Performance

(New York & London/February 17, 2004) -- The culture and tone at the top, the chief executive, the board of directors and the internal control system are the four key determinants of corporate success and failure, according to a new study released today by the International Federation of Accountants (IFAC) and The Chartered Institute of Management Accountants (CIMA).

Enterprise Governance: Getting the Balance Right includes an in-depth analysis of corporate successes and failures in 27 case studies from 10 countries. These countries are Australia, Canada, France, Hong Kong, Italy, Malaysia, the Netherlands, Thailand, the United Kingdom and the United States. Ten industries are covered in the case studies, including telecommunications, retail, financial services, energy and manufacturing.

The IFAC Board requested its Professional Accountants in Business (PAIB) Committee to conduct the study in conjunction with CIMA to explore and define the emerging concept of enterprise governance, determine its role in preventing or contributing to corporate failures and to recommend actions that can strengthen governance. The study complements previous research done by the IFAC Task Force on Rebuilding Confidence in Financial Reporting, which recommended actions that could be taken by all those in the financial reporting supply chain to restore the credibility of financial reporting and corporate disclosure.

"Although poor corporate governance can ruin a company, the study revealed that good governance on its own cannot make a company successful. Companies need to balance conformance with performance. This is a fundamental component of enterprise governance," emphasizes Bill Connell who chairs both the IFAC PAIB Committee and CIMA's Technical Committee.

In the study, conformance is defined as "corporate governance." It covers such issues as board structures and roles and executive remuneration. The performance dimension focuses on strategy and value creation.

"Unlike the conformance dimension, there are no dedicated oversight mechanisms, such as audit committees, in the arena of strategy. Several of the high-profile companies highlighted in this study fell into difficulties as a consequence of their strategic choices. There is a danger that in the laudable attempt to improve standards of control and ethics, insufficient attention is paid to the need for companies to create wealth and ensure that they are pursuing the right strategies to achieve this. It is both easy and common for boards to fall into the trap of getting immersed in detail at the expense of focusing on overall strategic risks and opportunities that drive shareholder value," points out Mr. Connell.

An analysis of the case studies showed that, in addition to the corporate governance issues mentioned above, there were several other key strategy issues contributing to corporate success and failures:

- Choice and clarity of strategy;
- Strategy execution;
- Ability to respond to abrupt changes and/or fast-moving market conditions; and
- Ability to undertake successful mergers and acquisitions (M&As).

Unsuccessful M&As were the most significant cause of strategy-related failure. A complete chapter on how enterprise governance can be used to control M&A activities is therefore included in the report.

The report also gives detailed information about CIMA's development of a Strategic Scorecard for enterprise governance as a means of addressing the strategic oversight gap and avoiding the sort of strategic failures that were apparent in the case studies.

In addition to introducing the concept of the strategic scorecard, the report offers guidance on enterprise risk management, the acquisition process, and managing board performance. An appendix features a synopsis of recent international corporate governance developments.

Enterprise Governance: Getting the Balance Right may be downloaded free of charge from IFAC's website by going to www.ifac.org/store. Print copies may be obtained by contacting damarysgil@ifac.org or jasmin.harvey@cimaglobal.com.

IFAC is dedicated to serving the public interest, strengthening the worldwide accountancy profession, and contributing to the development of strong international economies. Its current membership consists of 159 professional accountancy bodies in 118 countries, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce.

CIMA is the only UK body whose sole focus is on the training and qualifying of Accountants in Business. It represents financial managers and accountants who work in industry, commerce, not-for-profit and public sector organizations. Its key activities are related to Business Strategy, Information Strategy and Finance Strategy.

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Notes to Editors

Enterprise Governance is an emerging term that describes a framework covering both the corporate governance and the performance management aspects of an organization. The definition chosen by this report as its starting point defines Enterprise Governance as "the set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are management appropriately and verifying that the organization's resources are used responsibly." (Information Systems Audit and Control Foundation, 2001).

The report has been prepared by the Professional Accountants in Business (PAIB) Committee of IFAC and CIMA. The PAIB Committee serves IFAC member bodies and the more than one million professional accountants worldwide who work in commerce, industry, the public sector, education, and the not-for-profit sector. Its aim is to enhance the profession by encouraging and facilitating the global development and exchange of knowledge and best practices. It also works to build public awareness of the value of professional accountants. The PAIB Committee was formerly called the Financial and Management Accounting Committee.

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