White Paper —

Governance in the Dark

Most organisations do not know how well they are governed or what areas of governance to prioritise, and are paying the price.

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Executive Summary

This white paper draws upon research in 2021 that investigated concerns regarding poor standards of governance in many New Zealand organisations, and aimed to understand potential solutions. This research was carried out by Michael Poynter Consulting on behalf of Govn365 and identified two key issues contributing to poor standards of governance; it found that these two issues are part of a feedback loop reinforcing each other:

1. Many organisations see governance as a burden that adds little value.
2. Few organisations regularly assess governance performance; it is likely that most never do. [1]

Aside from these issues feeding back on each other, they are also driven by:

- Low levels of governance education and competence.
- Organisations valuing governance only or primarily to ensure compliance.
- Perceptions that standard governance advice is unfit for purpose.
- Organisations not being aware of evaluation tools and services.
- Absence of convenient, cost-effective tools to monitor governance standards on a regular basis.
- Directors/governance groups fearing evaluation, and resisting learning and development.

An organisation's belief that governance adds little value may be bolstered by the fact that their enterprise is performing adequately, and use this as a reason not to act. Often it is not until there is some crisis or transition event that the organisation realises the need for better governance.

The consequences of these issues include organisations spending too little time on strategy and risk; being blind to governance capability gaps; underinvesting in governance; failing to properly prioritise governance resources; and loss of commitment and motivation to address governance issues.

Although they may not be aware, organisations pay a price for poor standards of governance including reduced performance, increased risk and lower valuation.

Reasons for improving the standard of governance covers director liability and reputation, organisation performance, improved strategy and risk management, increased valuation, and benefits for stakeholder relationships.

There are certain types of organisations and scenarios where good standards of governance become especially critical. Organisations facing major transitions such as significant growth, international expansion or change of ownership are notable instances.

[1] "Regular" assessment is not strictly defined in this paper. However, our research indicates that leading organisations currently tend to carry out governance evaluations approximately every two years, although they lack effective tools to monitor and update assessments between full evaluations. Reports from interviewees suggest that most organisations either never evaluate governance or may have completed it as a one off exercise.

Considering solutions to these issues, we need to encourage more organisations to properly assess governance maturity across all areas of governance. This is key to governance groups understanding where they are exposed, and how they could be adding more value to their organisations. It is a critical first step to developing an organisation's governance capabilities and understanding the value of good governance.

Further, there is a need for tools enabling organisations to update assessments and monitor governance performance on a regular basis. This means governance groups can track progress and maintain motivation and commitment to address capability gaps, reducing risk and increasing the value of the organisation.

This paper introduces Govn365 as a new facilitated software tool that can help solve a number of these key issues.

Introduction

Context and Scope

This paper is motivated by concerns about the poor standard of governance of many organisations in New Zealand, including both for profit and not for profit (NFP) enterprises. A low standard of governance is associated with a range of undesirable outcomes including poor performance (reduced revenues, profitability, less effective use of resources, lower productivity)[2], increased risk, damage to reputation and key relationships, and less valuable organisations for owners and stakeholders.[3] This has broader consequences for New Zealand society, for example by degrading trust in organisations that provide services and employment, restraining wage growth, and diminishing our standard of living.

This paper does not, however, seek to identify and analyse all causes of poor governance. Instead, in Section 1 of this paper we identify two key issues our research indicated as significant contributors to poor governance standards. We investigate the root causes of these two issues revealed by our analysis, and in Section 2 propose solutions for some of the key issues. Other factors that are associated with low governance standards, such as poor board/ governance group composition, are not directly addressed here.

Although this paper focuses on New Zealand, the issues we address are expected to be common worldwide.

Methodology

This paper is based on qualitative research carried out by Michael Poynter Consulting in mid 2021. The research included semi-structured interviews with representatives of over fifty organisations throughout New Zealand. Interviewees were invited to share insights about the organisations they represented[4] as well as others with which they were familiar.

Given the relatively small sample size of each type of organisation we do not seek to make statistically significant, quantitative claims in this paper; however, the organisations and individuals interviewed are well-positioned to provide qualitative insights on the standards of governance in New Zealand based on their experience and representation of a range of significant organisation types, as summarised in the table below. Interviewees included chairs, independent directors, executive directors, C-suite executives, governance advisors/ consultants, as well as representatives of various other organisations with a stake in the standard of governance:

[2] See summary of academic evidence below
[3] See discussion below
[4] Many interviewees represented multiple organisations at the time of interview - e.g. directorship of multiple for profit and NFP organisations, and current or former senior executive roles.

Organisation Type	Definition	Interviews Completed
Large Enterprise	100+ staff; $30M+ rev	8
Small and Medium Enterprise (SME)	>100 staff; $1M-30M rev	6
Maori Enterprise	Incl. Iwi enterprises, Maori SME	5
Not for Profit (NFP)	Incl. incorporated societies/ associations, charities	7
Various Other	Incl. govt agencies, investors, banks, insurers, brokers, law firms	>25

Definitions

In this paper "governance group" refers to the person or persons with responsibility for governance of an organisation, whether public or private sector, for profit or not for profit. This includes formal boards, directors working with advisory boards, and owner-managers.

1. What is the problem?

Two key issues contributing to poor standards of governance

Our research revealed two issues that we propose are significant contributors to poor governance standards of New Zealand organisations:

1. Many organisations see governance as a burden that adds little value.
2. Few organisations regularly assess governance performance; it is likely that most never do.

We explain that these two issues are part of a feedback loop and reinforce each other. Improving the standard of governance requires breaking this cycle.

Many organisations see governance as a burden that adds little value

"Governance is seen as a chore... not value for money"

— CE of a metropolitan chamber of commerce

"Many companies question whether boards add value"

— Head of Growth Sectors of a big four bank

Few organisations regularly assess governance performance; it is likely that most never do

"None of the boards I'm on do board assessments.... In some cases the owners don't want to — they feel judged if the people they appointed perform poorly. It's even more complicated if the owners are managers."

— CE, large enterprise and independent director of several medium and large businesses

"Board evaluations are fairly common in large organisations, less common in smaller ones"

— Governance advisor

“The majority of organisations do not measure board performance”

— Independent director of several listed and SME businesses

“Measurement of [charities’] board performance is very informal — just a conversation”

— CE, governance and investment management service for charities and NFPs

“We don’t do any formal board evaluation. There was a Deloitte’s assessment about ten years ago but we haven’t done anything since then.”

— Director, medium sized engineering and development business

“Most not for profits do not evaluate governance performance at all.”

— Partner, national law firm — advises NFP sector

“Evaluation of board performance tends to be very informal, with no real metrics. And they don’t cover all areas of board responsibility — they could easily miss a risk area.”

— Independent director of several large and medium enterprises and NFP

“[Assessment of NFP board performance] generally is not happening — there’s very little self-evaluation. It’s certainly not comprehensive, they might look at financials and memberships and nothing further.”

— GM, organisation for leaders of industry associations and NFPs in Australasia

“We’re not using any particular tool or framework to assess our governance capabilities, weaknesses and performance.”

— Deputy chair, commercial investment board, Iwi — Treaty settlement in 2010

Few organisations assess governance despite existing services and tools

Our finding that few organisations assess governance performance arises despite the existence of a number of evaluation services and tools, for example, from the Institute of Directors New Zealand (NZ IoD), businesses like Propero and BoardWorks, those serving NFPs/charities like Sport NZ, NZ Navigator, and Te Whare Hukahuka which focuses on indigenous organisations.

As indicated, some of these services target specific sectors (Sport NZ, NZ Navigator and Te Whare Hukahuka) and are not aimed at other types of organisations.

Services like Propero and BoardWorks appear to be more widely known and used by larger enterprises, for example every two years in the case of leading organisations we spoke with. Smaller organisations may perceive these services as unaffordable, designed for large organisations, or they may simply be unaware of them.

The evaluations provided by these types of services may cover the following aspects of governance:

- Board systems and processes.
- Board structures, composition.
- Individual director/chair performance.
- Organisational culture, board culture, board-executive relationship.
- Purpose, strategy.

Users of existing services have a positive view of them.

Although few organisations carry out regular assessments, people we interviewed who had used these services had a positive view

"Boardworks provides a good, independent evaluation service including governance training, advice on composition and so on."

— CE, governance, financial and investment management service for charities and NFP

"Propero is good at identifying weaknesses — but it requires follow up like any other performance management process. The chair especially needs to commit, respect the process, take it seriously and follow through."

— Independent director, large council-controlled organisation and medium-large enterprises

"The only way to change board culture and practice is with external observation and benchmarking — you need an external perspective for example from a professional advisory firm or the IoD. You need external evaluation and validation."

— Director, medium sized engineering business, former CEO and director of various large enterprises

Gap in current evaluation services

One apparent gap in these services is a convenient means to monitor governance performance progress on a regular basis (eg. monthly) to ensure follow through on issues and weaknesses identified in the evaluation. Even those organisations that do carry out regular, bi-annual assessments report that they need a better means of committing to and tracking progress on governance performance in the intervening period. Interviewees expressed concerns about weaknesses and actions identified in assessments not being pursued and addressed after an evaluation process is completed.

In parallel with this, institutions with an interest in governance standards of their client organisations, such as investors, funding agencies, banks, insurers, regulators, reported that they would benefit from a sound and convenient means to check governance of their clients.

"Our governance scoring matrix is rudimentary... There is an opportunity for a tool that provides a convenient assessment of governance. We would be interested in this."

— Director, public funding agency

"We have an informal process [to assess the standard of governance of our clients] — there's no set framework ... the quality of assessment depends on the capability of the banker. We tend to check more carefully only after something has gone wrong."

— Head of Growth Sectors of a big four bank

1.1 What are the causes?

Issue 1: Many organisations see governance as a burden that adds little value

Our analysis highlighted four causes that can lead organisations to have an impoverished view of governance:

1. Low levels of governance education and competence.
2. Governance is only really valued to ensure compliance.
3. Standard governance advice may be perceived as unfit for purpose.
4. Lack of assessment undermines the value of governance.

Low levels of governance education and competence

Interviewees reported a low level of governance education and competence amongst many people who have taken on governance duties.

The CE of a business network association we spoke with stated that, “There’s an overall need for more director training.” And the CEO of a national law firm that runs a significant governance practice agreed that “director competence is a pain point in New Zealand” and that generally “there’s a low level of [governance] experience and capability.”

“It’s common for board members not to understand their job — for example, not understanding their primary obligation is to the company not shareholders.”

— Governance advisor

The NZ IoD provides comprehensive governance development courses and interviewees recognised the value of these. A director of a government agency and various enterprises, who was former CE of a large Iwi enterprise, considered that the “IoD course is excellent — it’s the best place to learn the responsibilities of being a director.” An independent director of several for profit and NFP enterprises thought the NZ IOD Directors’ Course should be “compulsory” and directors who are not part of the IoD “are missing something important.” A Customer Manager for Māori Business at NZTE who is also director of a charity similarly agreed that the IoD Directors’ Course is very good and “‘Four Pillars’ is a key tool.”

However, the cost of the courses is perceived as a barrier for many organisations as the following statements reflect:

“IoD courses are good, but expensive.... There’s a lack of quality, affordable director education in New Zealand.”
— Governance advisor

“IoD provides good resources... the courses are very useful and valuable, but expensive.”
— Associate professor, university business school

"It's very expensive to send directors on an IoD course — not for profits generally can't afford to."
— GM, organisation for leaders of industry associations and NFPs in Australasia

The low level of governance education and competence means many directors and governance groups fail to properly understand all the responsibilities and liabilities of directorship. It also means they do not appreciate the value good governance can add, for example in terms of defining purpose, overseeing strategy planning and monitoring, and enterprise risk management.

Low levels of governance education may also be self-perpetuating: directors and governance groups that lack understanding of the role and value of governance are less likely to invest in governance, including developing knowledge and competence.

Governance is valued only for compliance

Interviewees reported that many organisations believe and act as if the only real value of governance is ensuring compliance, and avoiding penalties for non-compliance. For example, an independent director we spoke with said that "organisations tend to only see the value of directors for maintaining compliance, tax filings.... the formal requirements of governance." And the director of a governance consultancy described many people as "see[ing] governance only as compliance — ticking boxes".

A common theme in our interviews was boards described as weighed down with compliance. The CE of an Iwi enterprise told us that "boards spend too much time on compliance and not enough on value creation, future planning. Tools to help change this balance are valuable."

Others we interviewed discussed the negative impact of over-focus on compliance:

"Boards with excessive focus on compliance underperform because they're too cautious.... These types of boards even tend to treat strategy like compliance — there's too much reliance on strategy templates."
— CE, governance, financial and investment management service for charities and NFPs

Another director we spoke with, who at the time of interview was CE of a large engineering business, discussed how some compliance work is performed out of habit, even though it has stopped adding any value:

"We need to allocate sufficient time for future planning. Often there's too much focus on the current situation — compliance and assurance.... Boards continue to complete tasks out of habit even if they no longer add value. For example, our organisation pays $50K every year for a payroll compliance report. It used to be important but with payroll tech being so good, now it's not necessary.... Boards need to shift attention to where there is real and poorly controlled risk."
— Former CE, large engineering businesses; director of SME, NFP

Treating governance as little more than a necessity to ensure compliance means the organisation misses the value good governance provides from stewardship of purpose and strategy, and risk planning. This reinforces a belief that governance is a burden that adds little real value.

Whether governance is undervalued because in practice too much time is spent on compliance and too little on future planning, or whether governance is seen as only good for compliance from the outset, the net effect is the same: these organisations demonstrate to themselves that governance has little value beyond avoiding harm from non-compliance.

Governance advice is perceived to be unfit for purpose

Our research suggests many organisations, especially small and medium sized enterprises (SMEs), may consider standard advice on govenance structures and processes is not fit for their purposes. For instance, a director of an SME we interviewed, who was formerly CE of a large firm, spoke of the impotance of having "an appropriate level of governance for the type and size of the organisation". And the CE of a large organisation who is also director of several SMEs responded that "smaller businesses need fit for purpose governance — if you have too much structure the organisation will drown."

"Some people take governance too far. For governance processes to work it needs to be appropriate for the scale of business.... In our case, tools need to be appropriate for owner-managers."

— Director, medium sized engineering and development business

The concern is that directors of SMEs, for example, perceive that governance processes, structures and tools have been designed with large organisations in mind and are not optimal for smaller enterprises. Unsuitable processes and tools lead to disappointing outcomes for the organisation, and ultimately frustration and disillusionment with the value of governance. Even the perception that governance tools and advice are not fit for purpose can lead to governance being neglected and undervalued. In these circumstances, governance tends to be viewed as an obligation to discharge legal duties that otherwise adds no value; it should only be carried out to the extent necessary for compliance.

Feedback loop: lack of assessment undermines value of governance

The lack of expedient tools to monitor governance performance and show progress may itself contribute to the perception that governance adds little value. When organisations lack measures of performance and a means to regularly track improvement, it is difficult or impossible to determine progress. There is less incentive for an organisation to invest in improving governance competence and performance if it cannot easily see results.

In this way, the second issue (failure to regularly assess governance performance) which we discuss next, reinforces the first (undervaluing governance, seeing governance as a burden).

Issue 2: Few organisations regularly assess governance performance; it is likely that most never do.

Many organisations fail to assess governance because:

1. Organisations may not be aware of evaluation tools and services.
2. They see little value in governance — why measure something that is not valuable?
3. Organisations lack convenient, cost-effective services allowing performance to be monitored on a regular basis.
4. Directors/governance groups may fear evaluation, and resist learning and development.

Organisations may be unaware of solutions

Organisations are unable to properly assess governance when they are unaware of evaluation tools and services. Our research suggests lack of awareness is not the most significant issue for larger organisations, but is a problem for smaller businesses and NFPs.

Low awareness means organisations are less likely to understand or consider the value of assessment tools and services.

"[Lack of] awareness of solutions is a big issue for many NGOs... awareness is mostly by word of mouth so it depends a lot on the networks and level of experience of board members."

— Manager regional NFP, trustee national branch of international NFP, director or advisory board of various other NFPs

Governance is undervalued

Organisations that undervalue governance will see little point investing in properly assessing governance performance, including investing time and resources in asessment services and tools. This creates a negative feedback loop. Unfortunately, it is not until some crisis or transition event occurs, such as selling the business, that they realise the need to improve.

Earlier we explained that governance is undervalued partly because convenient tools to regularly monitor governance performance are unavailable. However, the reverse is also true: organisations that believe governance adds little value are unlikely to see merit in regularly evaluating governance performance. Not only does failure to regularly assess governance performance contribute to undervaluing governance, but undervaluing governance makes assessment much less likely.

In practice, the belief that governance does not really add value, at least not in the short-term, may appear as a failure to prioritise governance and objections that "we don't have time" to work on it. For many organisations, this belief may be propped up by the fact that the enterprise is performing ok; it is not until there is some crisis or transition event that they realise the need.

"Business owners will say, 'I know I should improve governance but I haven't got time'... they're focused on fulfilling customer orders."

— Executive director, association of manufacturers

Examples from our research include a chartered accountant who is director of several NFPs noting that investing in governance is often seen as a grudge purchase and that many organisations "only do it because they're forced to". The CE of a metropolitan chamber of commerce made a similar observation about governance assessments noting that they are frequently only done on an ad hoc basis or if they are compelled to: "They don't do it unless there's some crisis or they're required to by a bank or investor."

"Lack of clear cost-benefit is a barrier to assessing and monitoring governance capabilities.... New Zealand businesses tend to want a quick return."

— Independent director of several listed businesses

Several interviewees noted that smaller organisations especially will always prioritise winning new customers or meeting current customer needs over governance.

"Lots of business owners need to be educated about the need for good governance — and the value of good governance — before they'll invest to evaluate and improve."

— Specialist business broker for a national brokerage

Organisations lack convenient tools to assess and regularly monitor governance

Organisations currently lack tools to readily update their assessment and monitor progress against identified governance issues. Even when organisations are aware of evaluation services and their value, they are still constrained by this problem. Currently available assessment services are either not designed to be carried out on a regular basis, or do not provide a convenient means to update the assessment as issues are addressed, and chart progress.

Some organisations fear exposure and resist learning

Governance groups avoid assessing their performance for two further reasons: one is directors' fear of being evaluated and exposed; the other is believing they already have the expertise.

At first glance, these appear to be opposites. They may, however, be linked by a culture that does not encourage learning and development. For example, the governance group may not have created a psychologically safe space for honest peformance review; or there may be a lack of humility about capability gaps combined with not knowing what best practice standard for each area of governance actually looks like.

"There are big egos on the boards of large enterprises. Too many directors have a 'Master of the Universe' attitude — they think they know everything and they're not willing to truly develop."

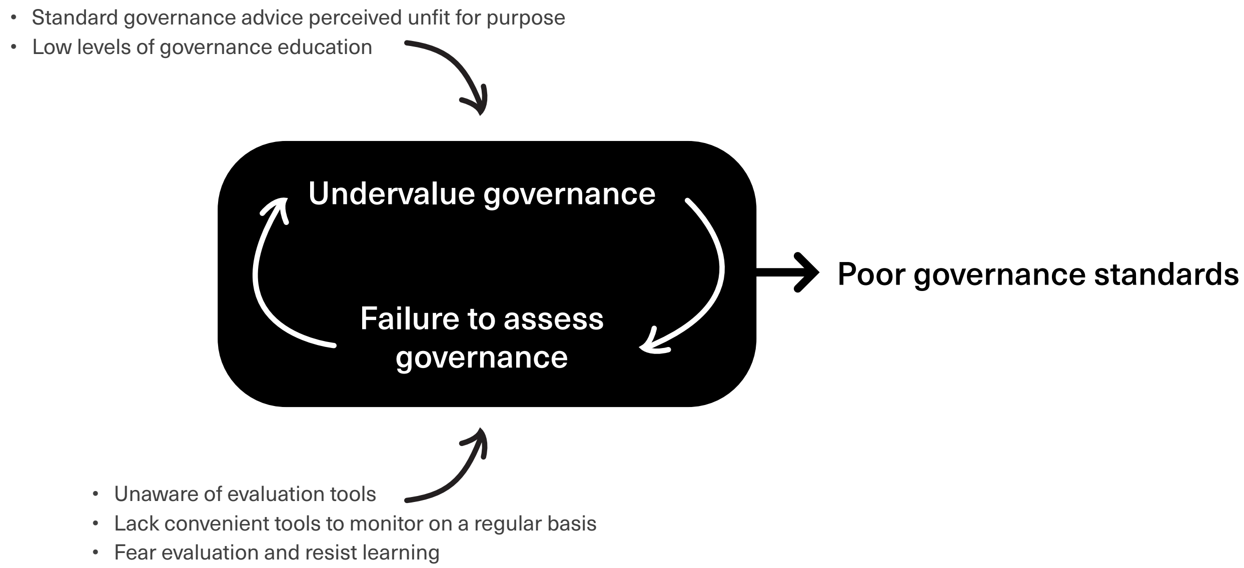
— Former CE, large engineering businesses; director of SME, NFP

"There are psychological barriers to evaluations — directors fear they might be exposed."

— Chair, listed multinational company

Summary of causes

Our research highlights several factors leading to governance being undervalued and seen as a burden, and to the lack of regular governance assessments. These contribute to a feedback loop where undervaluing governance and failure to assess governance reinforce each other:



1.2 What are the consequences

What are the consequences of an organisation viewing governance as a low-value burden, and failing to assess governance performance? Our analysis indicates the following five implications:

1. Too little time on strategy and risk.
2. Blind spots.
3. Underinvestment in governance.
4. Wrong priorities, or uncertain what to prioritise amidst increasing complexity.
5. Failure to follow through on identified governance issues.

Too little time on strategy and risk

Undervaluing governance, by treating it only as a means to ensure compliance, leads to the full range of governance responsibilities being neglected. Interviewees reported that governance is often excessively focused on compliance, with too little time on strategy and risk management. They pointed out that the lack of time and attention is not just developing strategy but monitoring implementation and revising strategy as necessary.

Governance groups that fail to devote proper time and care to developing and monitoring strategy, and enterprise risk management are more likely to:

- Miss opportunities to advance the organisation's interests such as identifying an unserved group of customers, leveraging a complementary emerging technology or new distribution channels.
- Be unprepared for major transitions like ownership succession or expanding into an international market.
- Fail to identify and plan for important risks, like cyber attacks which a recent HP Security study found cost New Zealand SMEs an average of $159K per attack, with 54% of respondents detecting breaches.[5]
- Act too cautiously, or too recklessly, by failing to assess and agree an appropriate risk appetite.
- Execute strategy poorly by failing to monitor, review performance and update plans.
- Miss changes in circumstances requiring strategy to be updated. This includes significant changes and trends in the "PESTLE" (political, economic, social, technology, legal, environmental) operating context. An example is the growing importance of Environmental, Social, and Governance (ESG) principles and reporting driven by socially responsible investors.

[5] Cybersecurity attacks on New Zealand small business double, IT Brief New Zealand, Oct 2021

Blind spots

A governance group that has not adequately assessed performance against all governance responsibilities:

1. May be unaware of certain responsibilities.
2. Even if aware, may not realise that they are performing poorly benchmarked against a global standard like ISO 37000.
3. Is unlikely to know what leading practice looks like for each area of governance. They will not realise that they could be doing better and how to improve.

> ***"Evaluation of board performance tends to be very informal, with no real metrics. And they don't cover all areas of board responsibility — they could easily miss a risk area."***
>
> — Independent director of several large and medium enterprises and NFP

> ***"Generally, risk is not well managed — people don't know what great looks like... Risk is high on the agenda at the moment because of the environment, cyber, COVID. There's a need to figure out how to manage risk well."***
>
> — Chair of several medium and large for profit and NFP organisations

Underinvestment in governance

Organisations that perceive little value in governance will be unlikely to use resources to develop the knowledge and capabilities of the governance group. This includes investing in governance tools and services, formal training/capability development, and seeking appropriate expertise and advice when needed. These organisations remain exposed to blind spots and weaknesses, such as poor oversight of people and culture that might harm the organisation's reputation, create challenges attracting and retaining talent, or lead to a #metoo scandal.

Wrong priorities, or uncertain what to prioritise amidst increasing complexity

Governance involves many different responsibilities, requiring knowledge and competence across fields including finance, strategy, risk management, health and safety, commercial law, people and culture. Moreover, interviewees reported that governance is becoming more complex. Technology developments, globalisation of trade, environmental and social changes have created new risks or raised public awareness of issues like environmental sustainability and modern-day slavery. There has been a corresponding trend to shift more responsibility and liability onto directors, for example in health, safety and wellbeing; cyber security and privacy; environment; and supply chain human rights.

Initially, new responsibilities may be enforced only against larger organisations but over time it is likely that they will also apply to smaller organisations. An example of this sort of trend is Sport New Zealand's mandate regarding minimum gender numbers on boards of sport organisations.[6] Furthermore, progressive organisations may see the inherent value in voluntarily taking on these responsibilities regardless of any strict requirement to do so.

The escalating complexity of governance makes monitoring and managing performance across all areas of responsibility more challenging. A tool to help organisations benchmark their performance against a recognised standard and other similar organisations in their sector, and to identify which governance areas are priorities for attention would help to manage this complexity.

If an organisation has not properly evaluated governance performance the governance group cannot accurately know where they are exposed and underperforming. An assessment of the governance group's level of maturity against all areas of responsibility will help to determine the right priorities.

Without this information, they are likely to continue focusing on areas they know and are comfortable with, rather than the issues that will add most value for the organisation. They are unable to properly determine what their true priorities should be.

"A common problem is over focus on one thing — evaluations helps to improve board performance in my experience"

— Director, governance consultancy

Failure to follow through on identified governance issues

Organisations that do carry out governance evaluations periodically, recognise that ongoing commitment and action on the recommendations is critical to address issues and make progress. The lack of a convenient way to track performance on a regular basis — eg. at every board meeting — may suffocate commitment to developing capabilities and addressing issues. A tool to visually monitor performance progress and update the assessment is a conspicuous way to secure this commitment and facilitate progress.

[6] Sport New Zealand, National Policy for Gender Equity in Governance

1.3 Why does it matter?

Why should organisations care about poor standards of governance? We consider the following four reasons next:

1. Legal obligations and liabilities.
2. Personal status and reputation.
3. Better outcomes and performance.
4. Stakeholder benefits.

Legal obligations and liabilities

Company directors have a range of legal duties including some for which they are personally liable. The recent trend has been increasing directors' responsibilities and liabilities. Breach of duties may incur fines, personal liability to repay funds if the company goes into liquidation, and imprisonment.

"Directors and officers have an increased number of legal and administrative duties and there is a greater expectation among shareholders, creditors, customers and the general community that these duties should not be breached. Directors and officers have duties and obligations, for which they are personally responsible, some of which may carry unlimited personal liability. Such liability can be incurred, not only as a result of their own activities, but also from the activities of fellow directors."
— Marsh McLennan, professional services in risk, strategy and people

NFP officers and directors, including trustees of charities have comparable duties, the breach of which can also entail significant consequences. This position has recently been reinforced following the passage of the Incorporated Societies Act 2022. Under this Act, officers of incorporated societies will be subject to new duties like those of directors of companies, e.g. the duty to act in good faith and in the best interests of the society and to exercise reasonable care and diligence. Officers (both current and former) will be liable for any breach of those duties, and will need to disclose all conflicts of interest.

A recent report published by the NZ IoD, Dentons Kensington Swan and Marsh highlights the trend of increasing premiums, some over 250% across 2020 and 2021, for Directors and Officers liability (D&O) insurance.[7] The report states that the increase is driven in part by new and emerging risks, including climate change risks, cyber security and data protection, and also the threat of more class actions against directors in New Zealand.

"Due to the increasingly complex issues faced by boards today, insurers are concerned that changing regulatory and stakeholder expectations will increase directors' exposure to new and emerging areas of risk"
— Insurance Business New Zealand publication, 12 Feb 2022

[7] D&O insurance — a rising sea of change, February 2002

Personal status and reputation

Governance roles are high status and a director's personal ambitions and reputation may be associated with the success of their organisation. Being part of a thriving organisation reflects well on the leadership. But a director's public esteem and ambitions may suffer if their organisation performs poorly or is involved in an avoidable crisis due to poor leadership. Directors therefore have a personal interest to ensure the governance group performs to a high standard.

Better outcomes and performance

Academic evidence

Academic research to date is equivocal about the links between governance and outcomes. There are, however, studies finding positive correlations between:

- Corporate governance variables such as board independence, board diversity and oversight, and company performance. [8]
- The strategic contributions of NFP boards and financial performance of the organisation.[9]
- Strategy, especially relating to use of resources, and performance.[10]
- Strategic planning and performance measures such as earnings growth, sales growth, price-earnings ratio, profitability, return on assets, return on equity.[11]
- Organisational purpose measured by strength of employee belief in the meaning of their work, and financial performance (eg. return on assets).[12]
- High firm purpose and clarity, and higher future accounting and stock market performance (even after controlling for current performance). [13]
- Indices of Environmental, Social, and Governance (ESG) performance and corporate financial performance. [14], [15]
- Board IT awareness and performance.[16]
- Board gender diversity and financial performance, measured by EBITDA margin and by other measures including cash flow return on investment, gross and net margins[17], investment performance, market value. [18]
- Interpersonal dynamics of the board (the extent to which the board fosters collegial group processes and strong interpersonal relationships among board members), and organisational performance in NFPs.[19]

These studies suggest there are many benefits for organisations through improving the standard of governance. They provide compelling reasons for organisations to invest in raising their standard of governance.

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[9] Exploring the association between board and organizational performance in nonprofit organizations, Nonprofit Management & Leadership, vol. 15, no. 3, Spring 2005
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[15] ESG and Financial Performance, NYU Stern Center for Sustainable Business and Rockefeller Asset Management, Feb 2021
[16] The Effect of Board of Directors' IT Awareness on CIO Compensation and Firm Performance, Decision Sciences, Jun 2014
[17] Diverse boards lead to better corporate culture and performance, Financial Reporting Council, London Business School, Leadership Institute and SQW, July 2021
[18] Why Diversity and Inclusion Matter, Catalyst, Jun 2020
[19] Exploring the association between board and organizational performance in nonprofit organizations, Nonprofit Management & Leadership, vol. 15, no. 3, Spring 2005

ISO 37000 examples of benefits of good governance

In 2021 ISO published the new guidance document *ISO 37000 Governance of organisations — Guidance* on the governance of organisations of all industries, sizes, geographies, constructs, or objectives. The guidance has been established by experts and trusted voices from a comprehensive range of organisations in over 70 countries to produce a specific, universally recognised, standard for good governance.

ISO 37000 states numerous examples of the benefits of good governance including:[20]

- **Improved organisational resilience in the face of negative leadership risks** (as examples, faltering leadership due to ineffective succession planning and personal liability impacts), and increased ability to realise operational efficiencies as a result of ethical behaviour by the organisation's leadership, and effective delegation of authority and responsibilities.
- **Increased speed of organisational decision-making** and action as a result of clarity of leadership responsibilities and clear understanding of delegated authority.
- **Improved organisational ability to remain resilient when negatively impacted** (as examples, fraud, non-compliance and environmental or utility impacts) and **increased ability to improve competitive advantage** (as examples, automation and artificial intelligence) through the recognition and realisation of opportunities as a result of improved governing body oversight of risk management and internal controls.
- **Increased owner stakeholder value generation** as a result of improved alignment of organisational activities with the agreed organisational purpose and strategy and effective oversight of organisational performance.
- **Increased access to, and reduced cost of, capital** as a result of increased investor certainty in the effective governing body oversight of matters impacting the organisation's sustainability and holistic decision making in this regard.
- **Improved organisational value generation over the long-term** for its stakeholders due to positive impacts on the local and international social, economic and environmental contexts in which the organisation operates as a result of governing body considerations for social and environmental responsibility and contribution to the UN Sustainable Development Goals.
- **Lower staff costs** due to an increasingly attractive environment for skilled staff, who are motivated not only by financial benefits, but also by intangible organisational benefits such as fairness, transparency and organisation attractiveness as a result of effective and ethical leadership by the governing body.
- **Increased viability of start-up initiatives** as a result of increased investor confidence in the organisation's ability to remain resilient and true to the stated organisational purpose due to increased leadership skill and attentive oversight; and increased continued organisational viability as a result of attention by the governing body on the organisation's sustainability.
- **Effective and ethical leadership** by an organisation's governing body is demonstrated, amongst other ways, in the organisation's transparency with stakeholders and perceived good corporate citizenship. This contributes to **increased organisational reputation, public image, public confidence and goodwill, all of which are part of the organisations' intangible assets.**

In our own research, interviewees strongly supported the view that good governance produces better outcomes and reduces risks for organisations. They reported the following links between governance and performance.

[20] ISO-TC 309 - Draft ISO 3700_Governance of Organisations, ISO, 2019

Improving the standard of governance improves valuation

Business brokers and accountants we interviewed reported that good governance significantly improves valuation in the case of a business sale. For example, good governance helps to ensure:

- Formal contracts and automatic payments are in place with customers demonstrating recurring revenues and maintainable earnings.
- Formal contracts with suppliers.
- The organisation is compliant with relevant laws and regulations — this may be a critical requirement to help buyers enter a new market.
- Appropriate people development and training.
- Better financial management, resulting in more efficient finance for the organisation.

"There's a very strong case for improving governance in succession planning... you will get much better valuation on sale"

— Chartered Accountant, governance consultant, director of several NFPs

"Good governance helps us to achieve our outcome — a successful business sale. It's a marketable asset."

— Director of sales, business brokerage

Different perspective and frame of reference

Good governance, including independent directors or advisors, helps business owners overcome challenges by providing advice, knowledge and experience. The executive director of an association of manufacturers we interviewed described how good governance provides a business with an external frame of reference. He noted that "SME owners are often isolated and lack external people to discuss their business — they benefit from a sounding board in a safe, confidential environment."

Similarly, a chair of several medium and large for profit and NFP organisations talked about the ability of the governance group to offer a different perspective to senior management: "Boards... can bring broader experience than the CEO. Good boards bring this experience into the organisation — they add a broader world view."

Purpose, strategy and risk

Many interviewees reported the value governance adds by defining organisational purpose, stewardship of strategy, and risk oversight.

For instance, a chartered accountant and governance consultant who is director of several NFPs considered stewardship of purpose to be one of the primary responsbilities of the board. He noted that having clarity of purpose is essential if the orgaisation is to achieve its purpose. The governance group's responsibility for strategic direction comes after it has clearly defined the purpose: "After this, the board's role is to achieve clarity on the theory of change — how to deliver the purpose. What resources, people, strategy do you need, and how do you know if you are achieving your goals?"

"Good governance improves future thinking and planning, which is a pain point for many businesses. It helps to increase discipline in the business around risk."

— CE, business accelerator

An experienced chair of several organisations considered that boards can add enormous value to strategy, adding that they often have a longer term view than the CEO.

"Improving our standard of governance has increased our sense of control and decreased risk."

— Director, medium sized engineering and development business

Several interviewees highlighted the importance of the governance group's strategy and risk oversight role. A former CEO who is now director of a public agency argued that a good governance group should monitor the organisation's progress and identify potential blocks before they arrive. The chair and director of several listed companies directly linked poor governance with increased risk: "If boards fail in their oversight role it raises all sorts of risks -— people and culture, health and safety, commercial, financial..."

Managing transition and growth

Our research reinforces the view that a range of important stakeholder interests are served and relationships improved by higher standards of governance, for instance with banking partners, investors and funders, and the communities they serve.

"Not for profits often stumble when they start to really grow because the founders' passion can lead to a blinkered view. Good governance helps immensely to transition through this stage by introducing good structures, policies and processes."
— Chartered Accountant, governance consultant, director of several NFPs

Stakeholder benefits

Interviewees also referred to the key role good governance can play when an organisation is going through a major transition. One interviewee noted with NFPs, for example, founders often are passionate about creating the organisation but lack the skills to grow it once established:

Enhanced trust and confidence with banking partners

The Head of Growth Sectors of a big four bank emphasised the centrality of risk assessment and management in banking, and therefore "better governance means the bank will have greater confidence and trust in your business, and is more likely to lend and to work through issues." He explained that a business may pay higher interest if it breaks a covenant because there is more work and cost for the bank. The organisation's risk grading will deteriorate and it will face greater scrutiny from the bank. But if an organisation is generally well governed, has visibility of upcoming difficulties and communicates them with the bank, it is likely to be treated more favourably: "If they give the bank warning, forecast a missed covenant, it's not so bad. The bank is more tolerant. It's a different conversation than if there's silence."

"Assessing governance is part of the criteria for lending."

— Senior representative of business and corporate team at big four bank

Greater trust and confidence in the charitable sector

As tax payers and potential beneficiaries of their services, the New Zealand public has an interest in ensuring charities are trustworthy and make effective use of charitable resources. The government agency Charities Services represents this interest and its role includes to "encourage good governance and management practices by providing educational support, advice and materials."

"Poor governance [of one charity] can impact the reputation of entire sector — the whole sector relies on public trust"

— Senior manager at Charities Services

Increase attractiveness and success with investors and funding agencies

Representatives of the investment community and funding agencies emphasised the importance of good governance in their decision-making. The CE of an investment partnership noted it can be of particular importance for venture capital investors since they do not take a majority stake and may not have a board seat, therefore seek some other reassurance about client governance. The director of a public funding agency explained that their funding process looks at whether the level of governance is sufficient: "An application can fail due to poor governance, or it might be a condition of the grant to improve."

"Investors will always look to put in governance. My advice is it's better to control the narrative — invest in governance before an investor imposes what they want."

— Director, accounting and advisory firm

We interviewed the investment director of an organisation providing capital raising support services for growing businesses. He said that investors look for a governance structure they can recognise and build on. Given the importance of governance to investors, his organisation, which helps match client businesses with investors, would like to have the ability to benchmark the governance standard of their clients. Benchmarking is important for investors for developing investment portfolios, assessing risk and return and determining how the portfolio should be managed. The interviewee indicated that at present there was no convenient way to do this sort of governance benchmarking.

Establishing the link between governance and performance

As noted above, to date the academic evidence for the links between governance and organisational performance has been equivocal. One explanation for this is that the governance group generally can only influence the organisation via the executive. Governance work is mediated by the executive team. A poorly performing executive team, or a breakdown in the relationship between the governance group and the executive, will impede the influence of the governance group. This issue underpins Dr Denis Mowbray's proposal of "The Third Team": his idea is that organisational leadership is three dimensional, comprising the board, the executive, and the "third team"[21] which "is formed whenever the board and executive collaborate or meet in formal or informal settings". Mowbray argues:

"The third team facilitates the continuing existence of hierarchies and structures; it defines how the boundary between board and management is bridged, enabling the board's intellectual capital to improve organisational performance."
— The Third Team: Linking Boards and Organisational Performance, Jun 2021

Addressing this particular issue fully is beyond the scope of this white paper, but our research did confirm the critical importance of the relationship between the board and the senior executive team in the case of larger organisations with more formal governance structures. Interviewees cited poor relationships between the board and the executive team as a very common problem.

Our research also highlighted concerns about blurred lines, or no lines, between governance and management in many smaller organisations. Interviewees agreed that there would be real value in tools that help distinguish the roles and at the same time provide a basis for a constructive conversation and relationship between the board and executive.

[21] The Third Team: Linking Boards and Organisational Performance, The Chartered Governance Institute, Jun 2021

1.4 Who does it affect?

The two problems we focus on in this paper, seeing governance as a burden that adds little value, and failure to assess governance performance, affects a wide range of organisation types including both for profit and not for profit enterprises. While our research suggests larger enterprises are more likely to carry out governance evaluations, not all do. Interviewees reported larger organisations may still spend too much time on compliance, and too little on strategy, enterprise risk management value generation.

Interviewees broadly agreed that although all types of organisations can benefit from better governance, it becomes especially critical in the following cases:

1. Once the organisation reaches a particular size and level of complexity.
2. When the organisation faces a significant change or transition.

Organisations that have outgrown informal processes

There was general agreement amongst our interviewees that once organisations grow beyond, for example, 20 people with revenues over $5M, it becomes challenging and risky to operate without good policies, processes and structures in place.

**"In a small businesses the MD can be the source of all knowledge. Processes are under the owner's direct supervision. There are lots of informal processes.
In larger organisations this doesn't work — you need some formal structure and records of best practice."**
— Executive director, association of manufacturers

Organisations facing change and transition

Our research highlighted several scenarios where good governance is crucial to manage the risk and improve outcomes associated with change and growth. These include:

- Planning for business exit/change of ownership, including management buyout.
- Acquisition or merger with another business/organisation.
- Developing export business.
- International expansion.
- Navigating a major crisis or dramatic change in the operating environment; COVID-19 was cited by interviewees as a litmus test for the standard of governance.
- Aligning with the changing needs of stakeholders, for instance regarding improving environmental and social outcomes.

Many of these events will involve funding and capital raising activities where investors or funding agencies may mandate improvements in the standard of governance.

2. What is the solution?

In this paper we identified the following key issues that contribute to poor governance standards:

1. Many organisations see governance as a burden that adds little value.
2. Few organisations regularly assess governance performance; it is likely that most never do.

Our analysis identified several underlying causes:

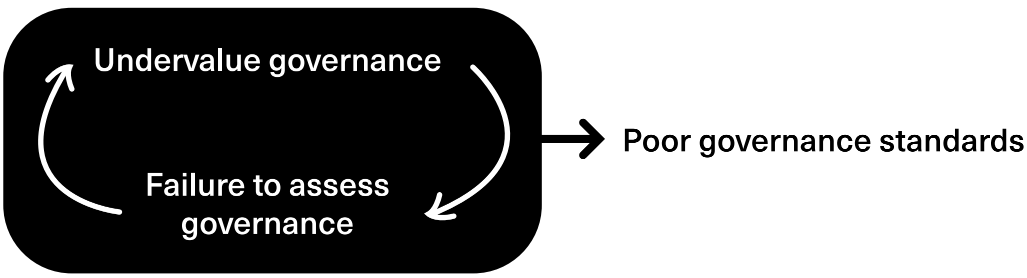
Issue 1 causes:

1. Low levels of governance education and competence.
2. Governance is undervalued (only valued to ensure compliance).
3. Standard governance advice may be perceived as unfit for purpose.
4. Lack of assessment undermines the value of governance.

Issue 2 causes:

1. Organisations may not be aware of evaluation tools and services.
2. Many organisations see little value in governance - why measure something that is not valuable?
3. Organisations lack convenient, cost-effective services allowing performance to be monitored on a regular basis.
4. Directors/governance groups may fear evaluation, and resist learning and development.

We explained that the two key issues reinforce each other in a feedback loop. To solve this problem and help raise the standard of governance of New Zealand organisations we need to break this cycle.



2.1 What does a solution to these issues look like?

Our analysis indicates that several types of intervention are needed to address these issues and improve governance standards of New Zealand organisations. The key intervention we recommend to break the cycle, is for organisations to properly assess, and continue to monitor governance performance. Overall, we recommend the following four types of action:

1. Raising awareness.
2. Increase the number of organisations assessing and monitoring governance.
3. Education, development, capability building.
4. Tailoring advice for size/type of organisation.

Raising awareness

Raising awareness of evaluation tools

One basic part of the solution is to ensure that organisations are aware of the existence of governance evaluation tools and services, and the value of properly assessing governance performance. As illustrated earlier in this paper, our research indicates that SMEs and NFPs are key targets for these messages.

Raising awareness of the importance of good governance

We must also ensure more organisations are aware of the value of good governance, part of the need to raise overall levels of governance education and competence in New Zealand organisations. It is a significant challenge and we note that institutions such as NZ IoD, Governance New Zealand, Charities Services, MBIE and various other stakeholders and advisors already devote resources for this purpose. Solving this problem is likely to require a number of different channels, approaches and the continued and coordinated efforts of these parties.

In this paper, we focus on how encouraging organisations to evaluate their current governance standard is a critical step in itself to raise awareness of the value of governance. When an organisation completes a comprehensive evaluation of its current standard of governance, this reveals capability gaps the governance group may have been unaware of, shows what a better standard looks like, and suggests the reasons to improve.

If the evaluation process illustrates what the scale of governance standards looks like for each area, from immature through to best practice, and requires the governance group to assess its current level, then the evaluation itself begins to teach the governance group what better governance looks like. Equally, for experienced directors who have had formal training, it serves as a valuable reminder and helps to ensure they are up to date with current best practice.

“[Govn365’s assessment tool has] the ability to remind you of all parts of governance”
— Governance group representative, medium sized business

Ideally, a solution might also have the capability to benchmark organisations against others in their industry sector of a similar size and type. At present, there is a lack of industry sector governance benchmarks. A benchmarking capability would give organisations a perspective on how well they are performing compared to others in their sector, and help embed a continuous improvement culture.

Increase the number of organisations assessing and monitoring governance

Assessment itself can help to understand the value of governance

Organisations that do not evaluate and understand their standard of governance will remain unaware of capability gaps and where they are underperforming. Nor will they realise the benefits of improving their governance capabilities. Completing an assessment will in itself begin to show organisations with low levels of governance education and understanding what they are missing out on. A proper assessment is therefore a critical first step in breaking the cycle and ultimately improving the standard of governance.

Assessment ought to be thorough but as simple as possible

To encourage as many organisations as possible to take this step, the evaluation ought be as easy as possible to complete. It should, however, still be sufficiently comprehensive to identify gaps and paint a picture of good governance, highlighting where the governance group is exposed and where it can add more value for the organisation.

Assessment should be reliable, and the process safe and constructive

Governance groups will be encouraged to evaluate their performance if they have good reasons to trust the process. To be credible and meaningful, the assessment ought to be based on recognised and reputable standards.

Our research highlights the importance of carrying out the process in a psychologically safe way. This may include having a forward-looking focus on the benefits to be gained from identifying gaps and improving competence and capabilities, rather than a review perceived as backward-looking and attributing blame. The assessment itself should review the governance group culture, and point the way to becoming a high performing governance team that encourages constructive review and development.

Important to identify priorities and indicate what better levels of governance look like

Governance involves a complex range of responsibilities. For an assessment tool to be valuable and actionable for an organisation, it ought to recommend a manageable set of priorities. This is important to avoid overwhelming the governance group, and to focus attention where they will see the greatest benefit.

It needs to not only assess current state, but to show what better performance and best practice looks like. It should indicate what the governance group needs to do to improve maturity for each area of governance.

“Our current assessment tool doesn’t provide the ‘what’s next’... assessment is not enough, it needs to help with actions, policies to implement, and so on once weaknesses have been identified.”

— Senior manager at Charities Services

Ability to update and monitor progress

Governance groups need an assessment tool that can be referenced on a regular basis, be updated easily, and provides a clear visual display so the governance group can monitor progress and update priorities. Encouraging organisations to evaluate governance performance is a critical first step to improving the standard of governance. A tool that identifies steps to improve governance maturity and track progress will then help maintain forward momentum.

An assessment service meeting the above requirements begins to address the issue of poor governance education and competence: it reveals gaps in the knowledge and competence of the governance group, indicates the benefits of improving, and provides impetus to seek advice, and improve competency.

Education, development, capability building

Our research indicated that many people with governance responsibilities have low levels of governance knowledge and competence. It highlighted that frequently organisations do not see the value of investing to develop governance performance, and that many people believe the current services are too expensive.

The mixture of insight, skills and capabilities of a successful director or governance group of course cannot be taught entirely in a book, online or classroom. Inevitably, experience, including failures, will be a central part of the development of directors and governance groups. However, services to provide foundational knowledge, as well as expert advice on specific issues, can help governance groups learn from others, avoid repeating their mistakes, and capitalise on their insights and wisdom.

Solving this issue will take time and the ongoing efforts of existing service providers like NZ IoD, universities and other stakeholders. We do not claim to provide a complete solution to this challenge here, but we do argue for the value of encouraging organisations to evaluate their governance as a critical initial step. A proper assessment helps the governance group realise what they don't know and the benefit of addressing capability gaps. This helps organisations to appreciate the value of governance training courses and advice, and overcomes some of the initial price objections. However, there is likely still a need for better, more affordable training for smaller organisations with less resources, including many NFPs.

Tailoring advice for size/type of organisation

Governance advice and services, including evaluations, need to account for the perception, especially amongst smaller organisations, that standard governance advice and tools are not fit for purpose.

Some of these concerns may be more about perception than reality. For example, a few interviewees spoke of ESG as if it is only a concern for large, listed organisations. Others, however, referred to the inherent benefits of adopting ESG practices and the value it can add for a business including attracting customers with more sustainable products, cost reductions through lower resource consumption, reputational gains and benefits for talent recruitment and retention. Nevertheless, interviewees were clear that smaller organisations need an appropriate level of governance to ensure they are not overburdened.

2.2 Govn365 as a solution

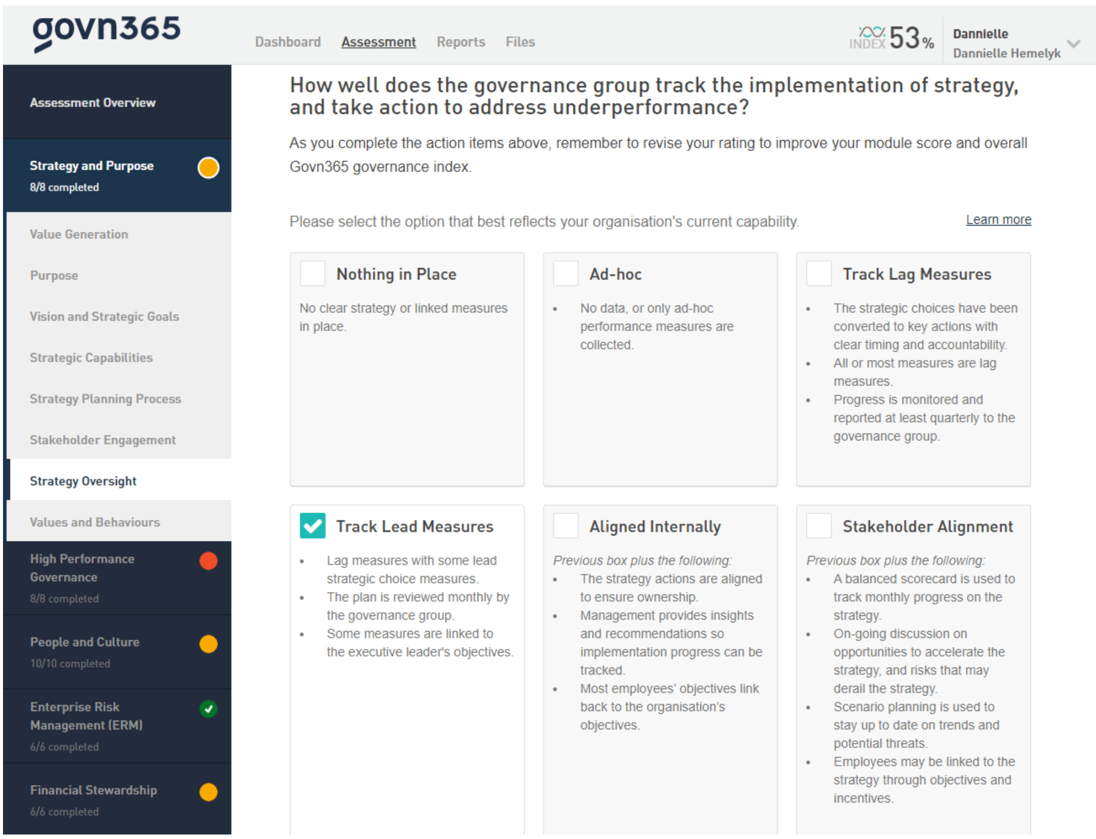
Govn365 is a governance tool to review, assess and improve the governance and performance of organisations. It helps governance groups navigate and demystify ten critical governance areas that influence and impact business functionality. Govn365 uses the principles in ISO 37000 to underpin the platform, and can help organisations understand how to align with the ISO principles and standards. Govn365 also incorporates the principles of ISO45001 (health and safety) and ISO31000 (risk management).

Assess

Govn365's first step is to support organisations to complete an assessment across the following ten areas:

- Strategy and Purpose
- High Performance Governance
- People and Culture
- Financial Stewardship
- Enterprise Risk Management
- Digital and Information Technology
- Commercial
- Health, Safety and Wellbeing
- Environment, Social and Governance
- Legal and Compliance.

Example element of Govn365 assessment from the Strategy and Purpose module:



The Govn365 evaluation process itself helps to develop understanding of good governance by indicating best practice and its potential to add value.

Completing an assessment in Govn365 typically takes 2-3 hours and ideally involves at least three representatives of the governance group. A member of the Govn365 team, or a certified partner, facilitates the process, providing guidance and helping to ensure alignment amongst the team.

Prioritise

Govn365 then prioritises the key areas the organisation needs to focus on for greatest benefit. Govn365 provides resources that help address the priority areas and move leadership up the governance maturity ladder, decreasing risk and adding value to the organisation.

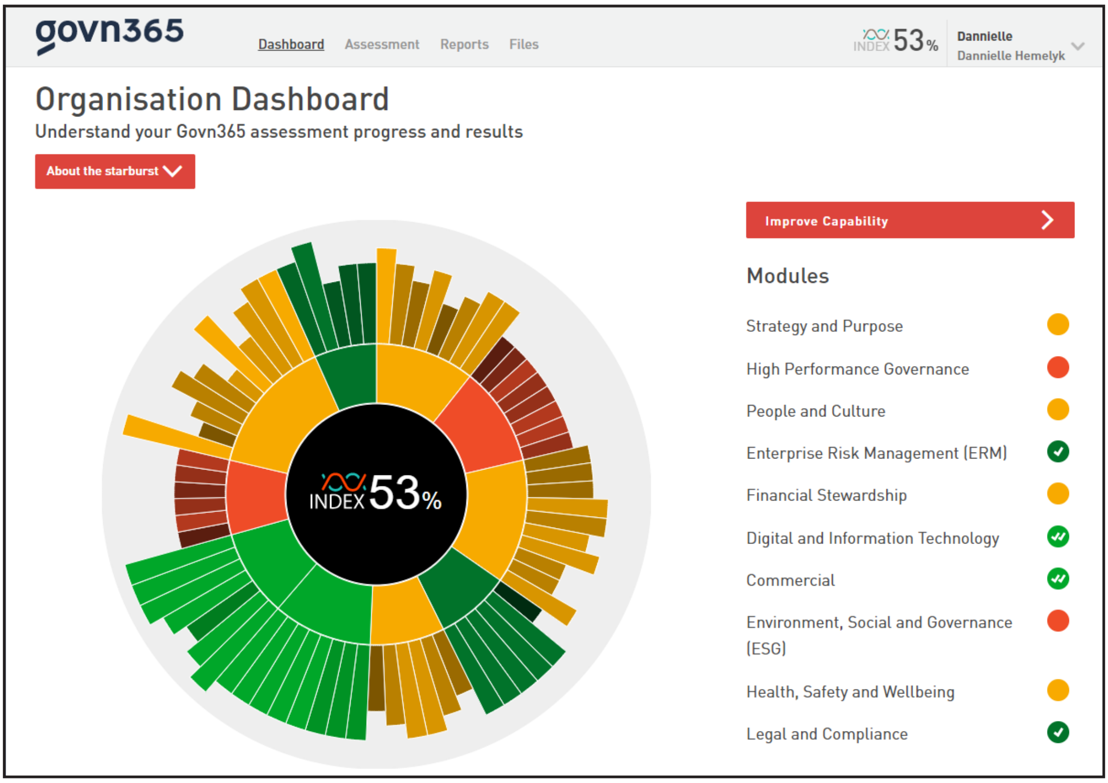
Priorities session

Govn365 provides a personal module-by-module review with the governance group a month after the assessment. This includes a further check on internal alignment, and looks at agreed actions to ensure they are appropriate and manageable.

Engage

Finally, Govn365 enables the governance group to engage with the priority areas. It gives the governance group scope to agree and align on the areas to improve then engage the team to take action and improve. Govn365 provides an actions list to capture specific measures to improve governance. The governance group can detail the action to take, who is accountable and by when.

The tool can be easily updated as actions are completed and the organisation moves up the assessment grades. A starburst chart provides a convenient visual index of performance and progress across all ten areas.



Efficient assessment tool to break the cycle of poor governance

Govn365 enables organisations to understand firstly the benefit of governance evaluations, but ultimately the value of improving governance maturity overall and the gains for the organisation.

Govn365 assessment is comprehensive but straightforward

Governance evaluations need to provide a thorough assessment across a comprehensive range of governance responsibilities. This is important for organisations to be able to identify significant gaps in their knowledge and competence. Govn365 assesses ten areas of governance requiring only a few hours of the governance group's time to complete.

Govn365 is simple to update and provides a visual monitor of progress

The prioritisation features in Govn365 enables the governance group to manage the increasing complexity of governance. Govn365 provides an objective basis for prioritising actions, so the governance group avoids dwelling on familiar areas out of habit, and over-emphasising compliance.

The starburst chart on Govn365's dashboard is a convenient visual means to monitor progress and priorities across the ten governance areas.

Governance education and competence

By indicating what steps an organisation can take to address weaknesses, and providing resources to develop the governance group's knowledge, Govn365 also helps to address the low levels of governance knowledge and capability. By no means does Govn365 replace formal governance training or the need for governance groups to use external experts and advisors. In fact, Govn365 helps organisations realise where and when they need to seek capability development and expert advice. It does this by identifying gaps, indicating how far they may be from best practice, and the benefits of moving up the maturity ladder.

Tailoring service for specific organisations

Govn365 facilitates the process for clients, from assessment through to engaging with the agreed priorities. Facilitation begins with a conversation about the organisation's business context, aims, challenges, and what the governance groups want to achieve using Govn365. Facilitation includes guiding the assessment process - challenging the governance group where necessary - and a review of alignment and agreed priorities one month after the assessment is completed. Facilitation helps to ensure the process and outcomes are appropriate and relevant for the organisation.

The governance group itself has scope to agree and align on priorities following the Govn365 assessment. This further ensures a fit for purpose solution for each organisation. Govn365 supports organisations to prioritise what matters to them at the time.

Other benefits of Govn365 including future development plans

Internally align the governance group and the executive team

One of the strongest links to good performance is how well the governance group and the executive team work together as "the third team".[22] Govn365 gives organisations a transparent tool and a facilitated process to align these groups to improve performance, helping to establish and support the third team.

> **"A governance performance dashboard would facilitate the relationship between the senior exec team and the board — it provides a basis for objective conversation."**
> — CE, investment partnership

Benchmarking

As Govn365 builds the number of companies assessing their governance the service will be able to benchmark where an organisation sits against its industry or sector.

Give Funders and Lenders Confidence

For organisations seeking funding or lending, the ability to show the Govn365 assessment and the actions being taken to improve, gives investors and banks confidence to support your organisation, showing them a transparent plan that they can buy into.

> **"A tool like Govn365 would help to facilitate conversation between the customer and the bank... It would help customers create trust with lenders... it would be useful to inform our credit memorandum assessment."**
> — Head of Growth Sectors of a big four bank

Retain and communicate intellectual property

In many organisations key knowledge about the enterprise is undocumented and not communicated. Govn365 ensures, through its assessment and alignment process, that everyone is clear where the organisation is at any time, what the risks and opportunities are and what actions are needed. This will ensure knowledge is shared, reducing risk for the organisation.

Engage staff

Strong staff engagement has been proven to correlate with strong financial performance. Govn365 gives governance groups the knowledge and resources to ensure they can build a strongly engaged culture and strong performance as a result.

[22] See discussion of "The Third Team" concept above

Next steps

Evaluating governance performance is a critical first step to improving the standard of governance. Assess your organisation's governance using Govn365.

Visit — www.govn365.com

Acknowledgements

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