

Response to Revised Code:
Dr David White February 2018

Thank you for the opportunity to comment on the revised Code. My response is focussed on addressing Q2: *Do you have any comments on the revised Guidance?* The following overviews the typical limitations of current approaches to corporate governance globally and highlights some directions that you may wish to consider.

A key conclusion from my doctoral research is that governance guidance globally is stuck in an 'paradigm paralysis'— with a cult-like blind adherence to prescribing how things are done by structure and process. More corporate guidance on board and other roles, structures and processes cannot overcome the problem of faulty judgments by boards, executives and others. A similar analogy is providing more detailed recipes for cake baking without a sufficient focus on ability to cook.

Not surprisingly, the best available global research shows strategy, structure and processes, have been found, at best, to influence only 2-4 percent of organisational performance. This result is consistent with the research globally into governance implementation which are mixed with some researchers able to correlate corporate governance recommendations to organisational performance and other researchers finding inconclusive or negative correlations.

Why regulators continue to focus on this type of governance guidance, with its minimal proven impact on performance, remains unknown. One explanation might be that the more visible governance tangibles such as structure and process are easier to measure whereas the more important intangibles such as professional judgment are harder to measure, discuss and report.

The need for change is self-evident. If medical authorities recommended treatments based on a 2-4 percent success rate, the public value of such treatments may be questioned by the community. This scenario may be considered unlikely. One of the reasons the public generally trusts doctors is because of an evidence-based approach using research by clinical trials has been adopted as the prime basis for governing the profession. Corporate governance regulators ought to consider a similar approach based on a proven common body of knowledge based on reliable research into characteristics of high performing organisations. Documentation may provide proof via reliable research evidence that governance guidance is objectively correlated to organisational performance and economic prosperity outcomes.

The strategic importance of focussing on governing the collective professional judgments of a country should not be underestimated. Ultimately a country's economic prosperity is primarily the sum of the professional judgments of its boards, executives and managers to create high performing organisations with world competitive high value-added products and services. This means the sooner a country adopts sound professional judgment governance, the greater the certainty of improved economic prosperity and trust in boards and executives in their professionalism to perform.

Professional judgment governance may be viewed as both unwelcome disruptive innovation and/or an overdue coming revolution needed in thinking about the directorship and management. Directorship and management may eventually be transformed from task focussed occupations to judgment-based professions for mastery. Countries may decide whether they want to be leaders, early adopters, herd followers, fence sitters or laggards. Their choices may depend on their commitment and mindsets to govern for building high performing companies and dissatisfaction with current guidance and codes.

Unless mindsets change, problems with companies may still be traditionally viewed as reinforcing the need for a 'bigger hammer' with more structure and process guidance needed. A hidden cycle of country underperformance may arise as company governance and performance issues arise, more structure and process guidance promulgated, professional judgment governance is not addressed, further company problems and issues eventually arise which then leads to another cycle of more prescriptive structure and process guidance. A country may become stuck in a 'paradigm paralysis'.

As professional judgment governance is an emerging specialist area, there is limited published information. If interested I can provide papers which may include:

- research into the limitations of corporate governance globally and summary of key research globally, including my own, into the governance of high performing organisations

- directions for professional judgment governance and experiences to date in implementation as part of university and professional association qualifications and certifications in Australia.

Dr David White,
High Performance Governance Specialist.
B Ec, Dip Acc, Company Directors Dip, MBA, PhD, FGIA