

# Culture and Governance Framework - What is it and why is it important?



Governance fosters resilience and the ability to confront both known and unforeseen challenges. It achieves this by establishing streamlined practices, policies, and procedures that govern how organisations are led, managed, and overseen. Directors hold a crucial role in ensuring the implementation of effective governance.

Within SMEs, the impetus for governance must emerge internally and align with the genuine value-drivers of good governance and adapt alongside the growth of these enterprises.

For all businesses, proper governance is imperative for their survival and expansion. SMEs, many of which are family-owned, require a governance framework that accommodates their unique complexities.

SMEs often postpone the adoption of sound governance practices until they reach a certain

size. However, delaying this implementation may necessitate radical and disruptive changes in the future.

In this context, good governance primarily involves establishing a set of company processes and values that enhance the business's value and ensure its long-term continuity and success.

To establish a governance framework, a company's purpose, culture, and values, including sustainability principles, should be tailored to its size. One example of this is the appointment of independent directors to the board, which can positively influence the boardroom culture.

The governance framework serves as a tool to guide directors in their roles and responsibilities, comprising four distinct areas, each addressing different facets of governance. In this guide, we will explore each area and its specific components.

## Individual Director Role:

This encompasses the responsibilities of directors, both as leaders and potentially as a Chair. It covers five key areas: director's role expectations, director's duties (including fiduciary duty and acting in the organization's best interests), competence (knowledge, experience, skills, and development), leadership (including decision-making and setting behavioural standards), and behaviours (relationships with key stakeholders).

## The Board:

Reflecting the practices and competencies of individual directors within the overall board, this area focuses on directors' commitment to the board's effective operation and collegiate responsibilities. It includes six key aspects: director's role on the board and committees, meetings (procedures, agenda, and minutes), board dynamics (including respect and diversity), board competencies (development and evaluation), legal standards (understanding and compliance), and board procedures and processes (reporting framework and assurance).

## Organizational:

This area focuses on directors' responsibilities in relation to the organization's performance, including those of senior executives. It identifies director-level operations crucial for organizational performance, covering compliance, risk management, strategy, finance, and management relations. Three key areas include governance (compliance, governance policies, and assurance), management relations (executive team, selection, evaluation, remuneration, and diversity), and performance (strategy, risk management, KPIs, and corporate outcomes).

## Stakeholders:

Focusing on the crucial interaction between directors and stakeholders, this area emphasizes the outward perspective directors should maintain in their roles. Four key areas include member engagement (communication, compliance, legal standards, and accountability), reporting (to members and markets), stakeholder relations (identifying and managing stakeholder relationships), and society and community (involving the organization's image and reputation).



Strategy

Board &  
Committees

Culture

Policies &  
Procedures

Stakeholder  
Engagement

Ethics

RESPONSIBILITY

FAIRNESS

Corporate  
Governance  
Framework





**Beyond Governance**

Creating clarity, improving business

# 5 TOP TIPS

## FOR KNOWING WHEN YOU NEED TO GO FURTHER WITH YOUR CORPORATE GOVERNANCE

Effective governance is the cornerstone of a successful and sustainable organisation. Continual monitoring of governance practices is essential to ensure that the organisation adapts to the ever-evolving business environment, navigates potential risks, and upholds ethical standards. By consistently evaluating and refining governance structures, policies, and procedures, organisations can maintain compliance with regulatory requirements, foster stakeholder trust, and create an environment conducive to strategic decision-making and long-term growth.

### 1. Regulatory changes or industry shifts:

Pay close attention to changes in regulations or industry trends that may necessitate a reassessment of your organisation's governance practices. Changes in laws or the emergence of new risks may require adjustments to your governance framework, policies, and procedures to ensure ongoing compliance and effective risk management.

### 2. Inconsistent or poor financial performance:

If your organisation is experiencing inconsistent or poor financial performance, it may be a sign that your governance practices need to be reviewed. Poor financial performance can be an indicator of underlying governance issues, such as a lack of oversight, inadequate risk management, or ineffective decision-making processes.

### 3. Corporate scandals or ethical lapses:

Instances of corporate scandals, ethical lapses, or other reputational issues can signal the need to strengthen your organisation's governance practices. Reevaluate your governance framework to identify potential areas for improvement, consider your board composition, ethical guidelines, and whistleblowing mechanisms, to prevent future issues and restore stakeholder confidence.





#### 4. CEO or key persons leaving:

Review your governance structures and succession planning processes to ensure they support the continuity of leadership and foster a stable, well-functioning organisation with an immediate course of action in case of a sudden departure or other reason.

#### 5. Stakeholder concerns or feedback:

Be attentive to feedback from stakeholders, such as investors, employees, or regulators, regarding your organisation's governance practices. Concerns raised by stakeholders can provide valuable insights into potential areas for improvement and help you identify when changes to your governance framework may be necessary.

In summary, organisations should remain vigilant and proactive in evaluating their governance practices. Regularly assessing the effectiveness of your governance framework and staying attuned to changes in the regulatory environment, industry trends, and stakeholder feedback will help you identify when it's time to go further with your organisation's governance, this will help ensure ongoing compliance, effective risk management, and long-term business success.

