CGMA TOOLS

How to improve your board's effectiveness: Introduction to three tools for risk and strategy governance

CGMA
Chartered Global Management Accountant

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INTRODUCTION

Good corporate governance remains firmly on the business agenda across the world. In economies such as the US and Europe, the key priority is to restore trust in business in the wake of the financial crisis. Elsewhere, such as the fast-growing BRIC[1] economies, corporate governance is recognised as a crucial factor in supporting sustainable economic and business development.

One issue that transcends countries' approaches to governance is the effectiveness of the governing board. Current thinking is that while there has been considerable attention on issues such as the structure of the board and its committees, there needs to be more emphasis on how well the board oversees strategy and risk as well as the appropriate behaviours required to fulfil this task effectively.

A high-performing board is one that adds value to the organisation by achieving a full package of responsible activities including:

- ethical decision making
- understanding the strategic environment
- understanding the needs of employees, customers and all those in the supply chain
- anticipating future events in an uncertain world.

Particular areas where organisations and their boards need to focus on are:

- improving strategy and risk oversight
- helping boards to challenge more effectively and constructively
- ensuring a strong, value-adding relationship between the board and management.

Tools and frameworks can help organisations and their boards to address these effectively. We have provided three such tools which can be used singly or in combination:

1. CIMA Strategic Scorecard.®
2. Tomorrow's Company The Board Mandate.
3. AICPA Risk Governance Tool for Strategic Oversight.

CGMA's can play key roles in supporting good governance. They may play different roles, for example, as non-executive directors or CFOs, but whatever their perspective, they need to ensure the provision of high-quality information to support strategic decision making and to demonstrate the professional and ethical behaviours crucial to an organisation's long-term success. They may have a difficult balance to strike between being an effective strategic business partner while maintaining professional independence and objectivity. By achieving this successfully, the management accountant can truly add value to the governance process and in turn, the effective performance of the organisation.

THE ROLE OF CGMAS

CGMAs may play different roles in the 'governance' supply chain, for example:

- non-executive directors
- CFO-either as an executive member of the board (for example, this is common in the UK) or a member of the executive management team with responsibility for briefing and advising the board
- the role of finance is so crucial to the board's decision-making that finance professionals throughout the organisation, with responsibility for providing management information to support decision-making, will find themselves supporting the governance process.

Whatever their specific role, they have to strike the balance between being effective strategic business partners while maintaining processional independence and objectivity. It is by doing this that the management accountant can truly add value to the governance process.

"The best CFOs will successfully strike a balance between having a robust strategic relationship with their business that is based on hard-earned trust and respect, while maintaining the objectivity, independence and fiduciary stewardship required of them by the stakeholders of the business."

– Mark Lukienski, Vice President of Finance EMEA, Araba Inc.

Footnotes

[1] BRIC = Brazil, Russia, India, China

American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775
T. +1 2125966200
F. +1 2125966213

Chartered Institute of
Management Accountants
26 Chapter Street
London SW1P 4NP
United Kingdom
T. +44 (0)20 7663 5441
F. +44 (0)20 7663 5442

www.cgma.org

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The Association of International Certified Professional Accountants, a joint venture of AICPA and CIMA, established the CGMA designation to elevate the profession of management accounting globally.