Sharon Donnery: Governing for the good – doing the right thing

Remarks by Ms Sharon Donnery, Deputy Governor of the Central Bank of Ireland, at the Institute of Directors Chartered Director Programme Graduation, Dublin, 3 October 2024.

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I am delighted to be here with you all this evening, and many thanks to Eileen for inviting me, and to John for the introduction.

I was where you were sitting just a few years ago. I remember how challenging, interesting and worthwhile it all was. And I personally found what I learnt on this programme, and who I met, invaluable to my role as a senior leader and as a member of our own board, the Central Bank Commission.

In today's world, I believe that in many ways the role of boards has never been more difficult; but it has also never been more important.

The internal and external complexity which boards must manage – from increasingly complex organisations to a challenging and rapidly changing external environment – has led to increased demands and higher expectations of boards and their directors.

But it has also heightened the necessity of good governance, and in particular the crucial role boards play in managing the risks and steering the culture and strategic direction of their organisations.

This is why institutions such as the Institute of Directors are so important, and why the role they play "educating, informing, and supporting directors to lead successfully", is so necessary in instilling stakeholder trust and confidence in our organisations.[1]

In this context, in my remarks today I thought I would outline from my point of view the importance of good governance and organisational culture – and try to answer a question I am often asked: 'what does good look like?'.

Good governance, good outcomes

My own experience in looking at and thinking about these issues comes primarily from the Central Bank's role in regulating and supervising the financial sector.

And while I speak from that experience, the lessons apply much more broadly. For regardless of the sector or business model, the important role of good governance, risk management and culture is something that holds true.

I firmly believe that good governance is the bedrock of successful firms – and that good governance leads to good outcomes.[2]

And indeed in the Central Bank of Ireland, our supervisory experience tells us that firms with good governance, culture and controls are much better set up for success – both in terms of growing safely as well as dealing with the risks facing them and their customers.

On the other hand, time and time again we have seen how poor governance is the root cause of many failings; how external shocks can amplify poor management behaviour; and in the world of financial services, how risks of consumer and investor detriment rises when poor business practices and weak business processes are allowed to persist.

For this reason – and following the hard lived experience of the governance, risk management and cultural short-comings that led to the financial crisis – strengthening the governance framework of financial services firms and improving the leadership and culture of these organisations has been a key focus for policymakers and regulators over the last 15 years.

I am happy to say we have come a long way since then – both in terms of the regulatory framework as well as the increased importance placed on good governance by all stakeholders, including industry. While standards have improved, however, it is a journey we are all still on.

Established firms continue to improve their governance and culture – through supervisory engagement and lessons learned from previous failings. Many new entrants, especially fast growing and innovative firms, on the other hand are at the start of their own commercial and regulatory journey – and from our point of view have the opportunity to embed good practices at the very outset.

In this regard, it is important that good governance and risk management is treated as a founding pillar of their business. That it is seen as a key enabler for growth, rather than an afterthought in their commercial strategy.[3]

For good governance and risk management is not just good for compliance – it is good for business, good for shareholders, good for customers, and good for the economy.

Furthermore in the fast changing environment we operate in, and in light of the evolving challenges we face, Governance is also something that needs to continuously evolve. Something that needs to reviewed, updated and enhanced regularly – not just in the face of evolving governance codes, but through lessons learned and in the spirit of ongoing efforts to foster confidence and trust in your organisations.

Risk management, traditionally a backward looking exercise based on historic data, needs to adapt too – with more forward-looking risk management techniques necessary in a changing and uncertain world.

Tone from the Top

So, good governance and robust risk management practices are essential components of sound and successful organisations. And indeed in a rapidly changing world, and in a heightened external risk environment, they are becoming increasingly so.

As a regulator and supervisor, one of the things we are trying to re-iterate with industry is that these are key issues that the firms themselves are responsible for. That they need to take more ownership of their governance and risk management, including a proactive, rather than reactive, approach to managing the risks and uncertainties facing their business and their customers.

Well-run firms know that this is not just about meeting regulatory requirements – but is in the long term interests of their businesses.

And so while embedding good governance and proactive risk management is a supervisory priority of our own related to the financial sector, I think that this is something that should be a priority for boards more broadly.

As the IoD's Standards for the Board states, a board's key purpose "is to ensure the company's prosperity by collectively directing the company's affairs, while meeting the appropriate interests of its shareholders and relevant stakeholders."[4]

In this regard, while governance and risk management is fundamental to ensuring prosperity and appropriately meeting the interests of shareholders, it is not enough to have these things on paper – they need to be embedded throughout the organisation.

And I would suggest that properly delivering and embedding these enablers all begins with culture.

For without the right culture, good governance and strategic plans won't get delivered – or they won't get delivered *right*. And without the right culture, firms are unlikely to look after the long term interest of its stakeholders.

Boards should therefore look to play a pivotal role in overseeing the culture of their organisation.

By setting the tone from the top, both through their interactions with the executive and by making culture an integral part of the organisation's strategy, boards can make a powerful contribution to establishing a strong ethical and cultural environment throughout.

You know it when you see it

So, I hope the importance of good governance, good culture and good risk management is clear, and that boards can play an important role in delivering good.

But what does "good" look like?

Governance and culture is of course a matter for each organisation – there is no one size-fits-all model, and no two boards are alike.

But, generally, "good" looks the same – as in you know it when you see it (or indeed when you do not).

However, as former Central Bank Governor Philip Lane once said – the "defining cultural test is how a firm deals with adverse situations[5] and indeed adverse situations are the real test too for how good a firm's governance and risk management is.

So it is critical that organisations are proactively attending to their culture and governance in the good times, to ensure they stand the test in the bad times.

In this regard, Boards should focus on ensuring their organisation has the right people, expertise, and experience – as well as the systems, processes and governance structures in place to run a firm well. It is about ensuring your firm is acting prudently, doing the right thing by your customers or investors and proactively scanning the horizon for potential new risks.

This does not just happen throughout an organisation – but rather it takes time, thought, investment and commitment from senior leaders to deliver, along with a clear setting of culture and expectations by the Board – who, as I said, play a key role from the top-down in ensuring accountability and driving the right culture in their businesses.

Necessary but not sufficient

Now, I have spoken of the important role governance, culture and risk management plays in successful firms. But while these things are *necessary*, and I would say fundamental, they are not *sufficient*.

The right business model and the right strategic planning is also key. Ones which recognise the risks, seize the opportunities, and indeed understand that there are risks from not taking some opportunities.

Steering the business model and strategic direction of the organisation is of course a core focus of boards and directors. So with this in mind, this brings me to a final point: what makes a good director?

In the first instance I will bow to the IoD, where they note a director should be capable of seeing company and business issues in a broad perspective, can bring a good degree of objectivity and can play a vital role in monitoring executive management and seek to ensure prudent control is exercised.[6]

In addition to this good summation, I will add some of my own views on the key attributes for a director.

It goes without saying that a good director needs to be **Strategic** – both in the direction-setting for the organisation, but also in terms of your own contribution – what are you influencing and affecting; what are you picking up?

They need to be **inquisitive**. While knowing what you bring to the table is important, so too is the curiosity to ask questions and to probe for answers. This is particularly true for INEDs, who need to verify and seek evidence – part of the independence they bring and ensuring they hold the board and senior management to account.

Another key attribute for me is to be **forward looking**. While always true, in today's uncertain environment it is increasingly so. Anticipating trends, and looking to the future – both in terms of growth and risks – should be a key part of a director's contribution to the collective direction of the company's affairs.

Lastly I think it is important that directors are **risk-based**, in terms of identifying the most material issues and risks for your organisation, considering at a board level you can only cover so much.

Combining all these attributes directors need to bring a unique and independent perspective to table, given the importance of broad experience, backgrounds and thinking being contributed to the collective.

They also need to bring their people with them – to truly embed good governance, risk management and culture throughout their organisation.

Conclusion

To conclude, I congratulate you all in completing this worthwhile programme. I hope in line with the IoD's purpose it will help you to lead successfully, thereby increasing the trust in your organisations.

As I have said, the role of senior leaders, directors and boards has never been more important – which I hope means interesting, fulfilling and impactful years ahead for you in your careers.

In those years ahead, I hope you become stewards of good governance, culture and risk management in your future roles – doing the right thing for the benefit of your organisations, consumers, the economy and society as a whole.

Thank you

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[1] IoD Our purpose: https://www.iodireland.ie/about-iod

[2] There is also a wide literature on empirical evidence of this: see for example Bhagat and Bolton Corporate governance and firm performance June 2008, or Shaukat and Trojanowksi Board governance and corporate performance August 2017

[3] See Donnery "Innovation and Trust – Regulating in the interests of us all" February 2024

[4] See Standards for the Board, IoD

[5] See Lane 2018

[6] See Directors' Handbook, Fifth Edition, IoD, McCann FitzGerald