

Governance & Tone at the Top

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Outline

- What is Corporate Governance?
- Building effective Board Governance
- The different roles related to the Board
- Tone at the Top
- Some Concluding Thoughts!

Corporate Governance

“The importance of corporate governance lies in its contribution both to business prosperity and to accountability.”

“Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals..... The aim is to align as nearly as possible the interests of individuals, corporations and society.”

Sir Adrian Cadbury

Corporate Governance Overview, 1999

[World Bank Report]

Corporate Governance

- Corporate Governance is a mechanism through which boards and directors are able to direct, monitor and supervise the conduct and operation of the corporation and its management in a manner that ensures appropriate levels of authority, accountability, stewardship, leadership, direction and control

It's about Leadership.....!

- Leadership for efficiency.....
 - to compete in the global economy, create jobs
- Leadership for probity
 - because investors require confidence
 - to provide assurance of management's integrity
- Leadership with responsibility....
 - to take account of broader stakeholder interests
- Leadership that is accountable and transparent
 - to build trust in *companies* and in the *economy*!!

Building Effective Board Governance

- Defining key board roles
 - Board Chairman
 - Chief Executive Officer
 - Board Directors - executive and non-executive
- Putting in place board governance arrangements
 - Board committees to support decision process
 - Supporting functions to regulate processes
 - Board procedures and rules, e.g. conflicts of interest
 - Delegated authorities for management
- Ensuring proper oversight and supervision
 - Management reporting and public disclosures
 - Assurance processes and controls

“The board should exercise compelling and relentless leadership and should not underestimate the power of leading by example - evidenced by high levels of visibility and integrity, strong communications, and demanding expectations. This leadership should be clear to ALL within the organization, as well as shareholders and other stakeholders.”

Boardroom Behaviors
the Institute of Chartered Secretaries and Administrators , UK
June 2009

Governance Framework

Shareholders

Board of Directors

- Achievement of strategic objectives and value creation
- Fulfil responsibilities and duties in law and prescribed functions

Board Operations

Strategy

Corporate Policies & Procedures

Board Governance Instruments

Monitoring and Evaluation

Key Areas of Responsibility

Information and Communication

Chairman

Board Meetings

Corporate Secretary

Reporting & Disclosure

Governance System and Controls

Board Committees

Audit Committee

Remuneration Committee

Other Committees

CEO & Management

Executive Committee

Internal Controls & Assurance

Combined Assurance Model

Internal Audit

External Audit

Other Assurance Providers

Management

Chairman as Leader of the Board

- Primary role
 - Provide overall leadership to the board
- Function
 - Principal link between board and CEO/management team
 - Responsible for board agenda and work plan
 - Work with board committee chairmen
 - Involved in selection and induction of new directors
 - Counsel individual directors on their performance
 - Participate in discussions with investors, key stakeholders

CEO as Leader of the Company

- Primary role
 - Lead the management team, reporting to the board
- Function
 - Work closely with board chairman
 - Responsible for performance of management team
 - Formulate corporate strategy, annual business plan and budget
 - Responsible for corporate and financial objectives
 - Formulate major corporate policies
 - Ensure continuous improvement in services and products
 - Manage relations with investors, major customers, regulators
 - Responsible for company's long-term sustainability

Board Structure and Composition

- Balancing executive and non-exec. participation
- Ensuring an effective selection process
 - Key personal and professional attributes
 - Skills aligned to strategy and business
 - Also fill board committee requirements, where appropriate
- Some general guidelines
 - Must have time to devote to responsibilities
 - Must exercise judgment in best interests of company
 - Must be informed about the business and its markets
 - Must avoid interest conflicts between personal and business
 - Must treat board information confidentially
 - Should act objectively and be receptive to other perspectives
 - Should prepare adequately for meetings, regular attendance

Benefits of Effective Board Committees

- Assist the board in its decision making
 - Brings together non-executives and management
 - Allows detailed discussion on management matters
 - But, filters out operational issues that remain with management
 - And, focuses on strategic decisions required of the board
- Supports board responsibilities in key areas
 - Audit, internal controls and risk
 - Executive compensation and management appointments
 - Governance issues and corporate policies
 - Nomination and selection of non-executive directors
 - Others, e.g. health, safety, environment, etc.
- Defined terms of reference and limitations
- Generally, no executive powers

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Instruments to Enhance Effectiveness

- Board Charter setting out procedural rules
 - Clarifies leadership roles and core responsibilities
 - Reserves matters specifically reserved to board
 - Sets management delegations and reporting arrangements
- Comprehensive induction for new directors
 - Legal and regulatory obligations
 - Financial structure of business, budgets and KPIs
 - Understanding of strategic priorities and current status
 - Familiarize with business operations, e.g. site visits
- Annual board work plan
 - Meetings and budget cycle, annual reporting
- Code of ethics or statement of business principles
 - Defines corporate values and conduct of staff and directors

Role of Corporate Secretary



Tone at the Top

- Tone at the Top sets the overall ethical tone of the company with respect to internal control.
- Do employees, management and Board understand the expectations of the company and management?
 - ✓ Are the values and ethics communicated?
 - ✓ Are the policies communicated to all employees?
 - ✓ Are these updated annually?
 - ✓ Is there annual security training?

Tone at the Top---cont'd

- ***Walk the talk:*** Implement and publish board operating principles that align with the company's values, and provide specific responsibilities for acting in an ethical manner at all times.
- ***Remember the water cooler:*** When making difficult decisions about unethical behavior involving anyone in a management role, assume both the ethical breach, and your response to it, will be widely known within the organization. Think about how the decision may reinforce – or conflict with – the company's stated values.
- ***Keep an ear to the ground:*** Use new technologies to monitor the corporate buzz. What are your employees, customers, and other stakeholders saying about the company's culture in social media and other digital platforms?
- ***Reward for principled performance:*** Include ethics and compliance in performance goals for C-Suite executives, and tie those goals to compensation.
- ***Build an ethical corporate ladder:*** Consider the ethics and compliance track record when promoting people into senior leadership roles, particularly as part of succession planning.