



# Effective Governance, Leadership and Management Principles



# Introduction



# ENRON Lessons learned



“Enron was really a systemic failure of all the checks and balances we have on corporate governance: integrity of management, board of directors, audit committee of the board, outside accounting firm, Wall Street analysts and ultimately the press. And all of us failed.”



Steve Shepard, editor-in-chief of Business Week magazine

# What Went Wrong



## 1) Creative Accounting

- Accounting for Special Purpose Entities (“SPEs”) permits creation of off-balance sheet entities.

## 2) Management Compensation tied to short-term stock performance

- Increase in stock-based compensation over the years (good or bad?)
- Short-term stock performance over long-term growth

# What Went Wrong



## 3) Audit Committee Lack of Diligence

- Few meetings of limited duration
- Ugly step-child committee
- Review of transactions were cursory
- Rubber stamp of management's presentations

## 4) Auditor Independence

- Huge audit and non-audit fees (\$50+ million)
- AA served as internal auditor and external auditor
- AA served as tax counsel
- Former AA employees permeated Enron



# Board Governance Framework

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## Shareholders

### Board of Directors

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

Chairman

Board Meetings

Institution Secretary

Reporting & Disclosure

Board Operations

Strategy

Institution Policies & Procedures

Board Governance Instruments

Monitoring and Evaluation

Key Areas of Responsibility

Information and Communication

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



# Governance Definition

# What is Governance?



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



# The 12 Principles of Good Governance

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1. Participation, Representation, Fair Conduct of Elections
2. Responsiveness
3. Efficiency and Effectiveness
4. Openness and Transparency
5. Rule of Law
6. Ethical Conduct
7. Competence and Capacity
8. Innovation and Openness to Change
9. Sustainability and Long-term Orientation
10. Sound Financial Management
11. Human Rights, Cultural Diversity and Social Cohesion
12. Accountability



# Management VS. Governance

# Management VS. Governance



- ***Management concerns the day-to-day operation of the institution/program*** within the context of the strategies, policies, processes, and procedures that have been established by the governing body.
- Whereas **governance** is concerned with “**doing the right thing,**” **management** is concerned with “**doing things right.**”



# Effective Board Governance

# Building Effective Board Governance



- **Defining key board roles**
  - Board Chairman
  - Chief Executive Officer
  - Board Directors - executive and non-executive

# Building Effective Board Governance



- **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

# 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 Institution



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

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# 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
- **Appointed or elected governing board members**
- **Size of the governing board**

# Board Structure and Composition



- **Candidates for the governing board**
  - Diversity in experience and skill
  - Community connections
  - Diversity in perspective
  - Employees as advisors

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# 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

# Benefits of Effective Board Committees



- **Supports board responsibilities in key areas**
  - Audit, internal controls and risk
  - Executive compensation and management appointments
  - Governance issues and institution 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**

# Characteristics of Effective Governing Boards



- Passionate belief in the mission.
- Shares a clear vision for the future.
- Has a firm understanding of the charter.
- Focused on results.
- Focused on strategic issues.
- Has a clear understanding of roles and responsibilities.
- Has an appropriate structure, size, and composition.

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# Characteristics of Effective Governing Boards



- Has a clear understanding of the difference between governance and management.
- Maintains a strong relationship with the institution leader.
- Facilitates the mutual support of a strong institution leader who understands charter governance.

# Board's Role in Strategic Planning



- Review and approve
- Understand & challenge assumptions
- Understand critical success factors
- Ensure sufficient due diligence
- Is the plan realistic/achievable?
- How will success be measured?
- Monitor performance

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# Board's Role in Financial Oversight



- Duty to maintain proper accounting records
- Periodic reporting of financial position, performance
- Establishing, monitoring proper internal controls
- Ensuring proper external controls and audit
- Skills, knowledge required by directors

# Board's Role in Risk Management



## The board should know about and evaluate the:

- Most significant risks facing the institution
- Possible effects on shareowners
- Institution's management of a crisis
- Importance of stakeholder confidence in the organization
- Communications with the investment community

# Board's Role in Risk Management



- **The board should ensure that:**
- Sufficient time is devoted to discuss risk strategy
- Appropriate levels of awareness exist throughout the institution
- Risk-management processes work effectively
- A clear risk-management policy is published

# Key success factors for an effective Board



- Outstanding leadership
- Unquestioned legitimacy and effective power
- Enlightened definition of function, role and responsibilities
- Outstanding competence
- A supportive, functional culture; and
- Efficient management of function, structure and process

# Barriers to effective governance



- Ineffective leadership
- Lack of sustained commitment to Vision, Mission and Values
- Unclear definitions of functions, roles and responsibilities
- Lack of clarity between role of management & Board
- Lack of mutual trust within Board and between Board and management

# Barriers to effective governance



- Imbalance of skills/competencies
- Poor information management (too much/too little)
- Burnout of Board members
- Turnover of Board members and little/no corporate memory
- Lack of succession planning

Role of the board  
Board structure  
Role of individual directors  
Role of the chair  
Role of the company secretary  
Role of the CEO

### Defining Governance Roles

### Key Board Functions

Strategy  
CEO  
Monitoring  
Compliance  
Risk management  
Policy framework  
Networking  
Stakeholder communication  
Decision making

## Board Behavioural Dynamics<sup>®</sup>

Director protection  
Board evaluation  
Director remuneration  
Director selection  
Director induction  
Director development

### Board Effectiveness

### Improving Board Processes

Board meetings  
Board meeting agenda  
Board papers  
Board minutes  
Board calendar  
Committees

# Board committees



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# 'Good governance' is...



- 'A **transparent decision-making process** in which the **leadership** of an organization, in an **effective and accountable** way, directs **resources** and exercises **power** on the basis of **shared values**'
- Marilyn Watt, A Handbook of NGO Governance

A sharing of decision making so that power and resources do not accumulate in the hands of one person or a single group.

What might 'bad governance' mean?

# Basic features of good governance



- A basic form of accountability
- Decisions are discussed and made collectively
- There are restrictions on one person becoming more powerful than the others
- This doesn't happen accidentally, by chance or because of good will – it has to be formalized through rules and procedures

# In a 'good governance' ...



- There is a membership
- There are regular elections for the board and nominations for all positions on a board
- The board is voluntary and unpaid
- There are clear and specific roles (president/chairperson, treasurer, secretary)
- There are regular, minuted meetings

# In a 'good governance' ...



- The meetings are organized in a standard format with regular reports on key issues
- There are written procedures for how elections and meetings and for how conflict is resolved

# Also...



- There is a coordinator, executive officer or secretariat responsible for the organization's daily business, they are accountable to the board
- There is a distinction between governance (board, broad direction) and management (staff, everyday activity).

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# Also...



- Good governance adds value by improving the performance of the institution/program through more efficient management, more strategic and equitable resource allocation and service provision, and other such efficiency improvements that lend themselves to improved development outcomes and impacts. It also ensures the ethical and effective implementation of its core functions.

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