

Governance

More Art Than Science

Although there has always been a need for effective stewardship by employing a vigorous governance regime, the public's attention has probably never been stronger as a result of the Enron saga. This need extends beyond large, publicly traded companies. It is equally applicable for public sector/government bodies, not-for-profit groups and small businesses.

Pro-active governance first asks for a framework of goals, objectives, policies and measures to guide an organization's progress. The directors then use this framework to assess management's activities, initiatives and results. Overall, effective governance depends on concerned, interested organizational leaders.

Issues of director liability

Directors will naturally have concerns about personal liability. While this cannot be absolutely eliminated, it can be managed within reason. Generally, a director is expected to perform according to his/her own experience and skills, and not to some higher level. Other performance standards include loyalty, honesty, good faith, avoiding conflict of interest and the attention of a reasonable, prudent person. Not surprisingly, a director is expected to understand the organization's basic business. The scope of the board's authority will be as outlined in the enabling documentation and by-laws. Resignation should not be relied on as a defense for dereliction of duty while serving on a board. Corporate legal advice on director liability should be obtained as a matter of course for all new directors.

Understand the role of the board

Results-oriented governance will see an effective board spending more time and effort in "looking through the windshield" than "looking in the rearview mirror." Directors will need to spend time reviewing reports on prior achievements and results in order to monitor how management has been performing. To do this, a comprehensive set of performance measures (indicators) should be established for effective monitoring. However, the directors must also provide leadership for the organization. They are responsible for shaping a vision for the future and ensuring all employees are aware of this vision.

Annually, the board of directors should also undertake a self-assessment of its own performance as it relates to governance responsibilities - how "good" is the organization's governance and how can it be improved? This assessment will benefit the overall organization.

Furthermore, directors must represent the interests of the organization itself. This is an important point to acknowledge for those directors appointed by outside bodies. All directors must focus on the best interests of the organization, versus attempting to represent the appointing body.

Factors that can influence success

As the organization works to improve its corporate governance practices, many variables are likely to have an impact on success. The following should be considered:

- the culture in the organization
- the leadership characteristics of the board chairperson
- the interpersonal dynamics of the directors on the board
- efforts to bring new directors up to speed on their responsibilities, including governance
- the relationship between the board and senior management, in particular the chairperson and the senior executive
- the cooperation and “buy-in” of senior management
- the board’s level of understanding of the organization’s business activities
- the overall economic, social and operating climate for the organization, its customers and suppliers
- government regulations and policy direction
- eagerness to understand the merits of and to pursue “good” corporate governance

Ultimately, patience and persistence will be required in the pursuit of “good” governance. People will make progress, but it will be an ongoing exercise of continuous improvement.

By Doug Atkinson
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Pullquote:

“The directors...are responsible for shaping a vision for the future...”

Doug Atkinson

THE ROLE OF THE BOARD OF DIRECTORS

While every organization is different, there are generally six core areas of board responsibility:

- strategic planning – a plan for where you want to go and how you will get there
- risk management – managing factors which threaten performance and survival of the organization
- management evaluation and succession planning - managing for peak operational performance and continuity
- communications – a policy and an informed spokesperson for all situations
- internal control - keeping tabs on assets, liabilities, revenues, expenses, and policy compliance
- monitoring organizational success – establishing measures and reporting on performance