

# Governance / Compliance

## FOCUSING ON THE ESSENTIALS Governance only as good as people around the table

By TIM PLUMPTRE

With all the talk about governance and accountability these days, executives are showered with advice about what to do. It's easy to be pulled in many directions. Where to focus attention: a robust audit committee? Better orientation for board members? Conflict of interest policies? Closer oversight of executive compensation? Board-staff relations? Disclosure practices?

The Institute On Governance has been working on these kinds of issues with boards and CEOs for over 15 years, and has found that there are certain key issues boards and organizations cannot afford to ignore – critical success factors that have to be in place if governance is to be effective.

Your governance cannot be better than the individuals around your board table. Three considerations need to be kept in mind here.

First, to perform effectively, boards need to comprise at least some individuals who bring needed expertise to the table in the form of skills, contacts and experience. Boards for public sector organizations may also need – at least in part – to be constituency-based. You need the mix of people that best reflects your mission, and that takes account of where the organization is going.

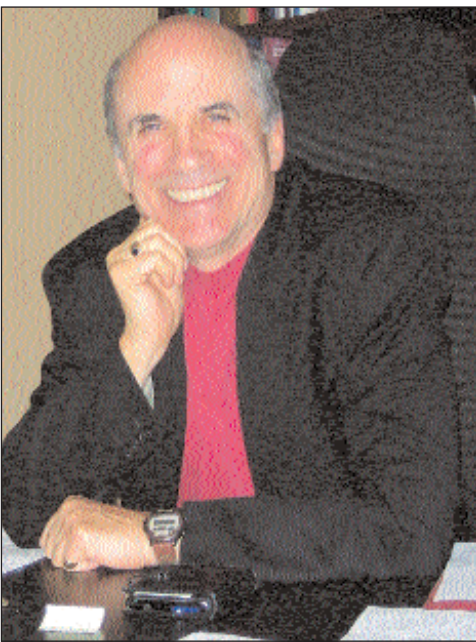
Second, directors should have an independence of mind and a willingness to engage constructively. Directors with excellent credentials, but who are unwilling (or

unable) to ask the tough questions or to participate as strong team members are of little value. Board recruitment is not just about expertise, it must also consider personal attributes.

Last, but certainly not least, the top executive needs to be someone who is up to the requirements of the job. Governance requires a close partnership between the board and staff, and if the head of the staff team is not up to the challenge, governance will be affected. Where organizations suffer from a shortage of resources, as is so often the case in the voluntary sector, finding and remunerating the effective CEO or executive director can pose a major roadblock to the attainment of good governance.

Nancy Axelrod, founder of BoardSource, has asked, "How can a group of intelligent individuals act so foolishly when they join together as a board? Or a group with varying degrees of talent become an exceptional board?" Having strong individual directors is not enough. A good team needs a great coach or leader. That leader is the chair.

Chairs are the pivot point of governance. Whether they realize it or not, they are enormously influential. Their powers will vary depending on bylaws and traditions. However, they are usually in a position to determine, directly or indirectly, the outcomes of key



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governance-related decisions, including: who occupies key board roles, such as officer positions or committee chairs; board priorities; the content of board agendas; the partnership with the CEO or executive director; the results of board meetings; the quality of information provided to directors; and the prevalent culture at the board level.

Often, the chair can also exercise considerable influence over who will be brought on to the board in future, and sometimes, who the next chair will be.

Problems in governance often resemble those related to organizational performance. At the heart of performance problems, one frequently finds a simple lack of clarity about what is to be done,

where the organization is going, or who is responsible for what.

Directors who do not understand their individual roles; boards that collectively don't appreciate the responsibilities of governance; committees with vague terms of reference; uncertainty around where the role of the board ends and that of staff commences; committee chairs (or board chairs) who do not understand their role: these are stones in the shoe of sound governance.

These challenges are compounded when there is uncertainty about mission or strategic objectives. Clarity of direction provides a context within which more specific problems related to roles and responsibilities can be resolved.

Fixing these problems can be difficult. Often, underlying issues of role uncertainty are problems of turf, politics or personality. In my experience, a simple lack of precision in the use of language also contributes to friction. Poorly drafted role statements are breeding grounds for corporate conflict.

Boards sometimes forget that the most valuable asset of their organization is its reputation; and its reputation lies in the hands of key stakeholders. In the private sector, these typically include customers, major shareholders, partners, suppliers and employees, and, perhaps, communities where the organization does business.

In the public sphere, the list may include some of these same stakeholders plus others unique to this sector, such as funders, members (of non-profits), regulatory organizations, interest groups, advocacy organizations, as well as citizens at large.

Sound governance rests on sound relationships and ethical behaviour. A key consideration in building effective governance, therefore, is to ensure that critical organizational relationships are in good order and that behaviour, both at the board level and within the organization, is above reproach.

Usually, a good deal of this responsibility can and should rest with the CEO, but the board itself should exercise a careful oversight role. Board members themselves may find it prudent to play a direct role in fostering certain key relations. The board as a whole has the responsibility of ensuring that eth-

ical behaviour is valued and practised both at the board level and at an operational level.

The reward of good relationships and ethical behaviour is trust in the organization. Conversely, the penalty for loss of trust can be devastating—as Enron discovered when its accounting practices became apparent, as Arthur Andersen, the now-defunct accounting firm found when the collaboration of senior employees with Enron was revealed, and as the Canadian Red Cross found when the tainted blood scandal came to light in the 1990s.

It may sound somewhat pedestrian, but it is nonetheless true that sound policies and practices have a lot to do with governance outcomes. It is not an accident that well-run governments typically have clearly defined procedures for how policy documents should be submitted to Cabinet, or how legislation should be crafted.

To function well, boards need to ensure that staff provide them with effective support. Certain key policies or practices must be in place that are attuned to the needs of the organization. Some of these may be explicit—written down. Others may be implicit or informal, part of the unwritten culture of the organization.

Whether formal or informal, these practices should ensure the right people are involved in setting board agendas. The reports the board receives for oversight should present the right information in a way that directors can work with. Policy documents must present issues understandably and set forth decision options clearly.

Key policies that have a bearing on ethical behaviour should be in place, such as conflict of interest guidelines or codes of conduct. Not every board policy or practice is critical to effective governance. But some are.

In summary, in the quest for sound governance, it is easy to get distracted. A consistent focus on the factors outlined above – people, leadership, role clarity, sound relationships, ethical conduct and key governance processes – should help both boards and CEOs to ensure that they are on the right track.

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## FINANCIAL EXECS MORE CONFIDENT

In a recent survey, chief financial officers (CFOs) said they are more confident about their companies' financial reporting and technology capabilities than they were three years ago. Thirty-three per cent of CFOs said they are more confident in the accuracy of their companies' financial reporting today. Thirty-two per cent of respondents said they are more assured about their employee's loyalty; and 27 per cent said they are more confident in their companies' technology capabilities.

The survey, developed by Robert Half Management Resources, provider of accounting and finance professionals on a project and interim basis, was conducted by an independent research firm and included responses from 270 CFOs at Canadian companies with 20 or more employees.

CFOs were asked, "Thinking about your business today compared to three years ago, in which of the following areas are you more confident?"

- Accuracy of financial reporting.....33%
- Loyalty of employees.....32%

- Technology capabilities.....27%
- Business growth opportunities.....15%
- Level of internal controls and corporate governance.....13%
- None.....1%
- Don't know/no answer.....3%

Paul McDonald, executive director of Robert Half Management Resources said, "The *Sarbanes-Oxley Act* has prompted public and private companies to better align their technology and finance functions. Replacing outdated business software with newer systems has enabled firms to capture essential data for more accurate financial reporting, and thus meet critical accounting mandates."

McDonald pointed out that staff loyalty also ranks high on the list of areas in which CFOs feel confident about their businesses.

"A competitive employment market has prompted many executives to enhance their retention efforts in order to increase job satisfaction and reduce attrition rates," he said.