A Comprehensive Guide to Effective Leadership & Good Governance

A Strategic Management Approach for Southern Africa

IUCN
The World Conservation Union

A Comprehensive Guide to Effective Leadership and Good Governance

A Strategic Management Approach

Guidelines to Good Governance for use by Environmental Agencies

IUCN
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Carmel Lue Mbizvo, Regional Policy Programme Coordinator, IUCN - ROSA

1. AN OVERVIEW OF IUCN-ROSA

The World Conservation Union

I U C N - the World Conservation Union was founded in 1948 and brings together government agencies, NGOs, scientists, and experts in a unique global partnership. A regional office was established in Zimbabwe in 1987 to serve the Southern African region in the development of skills in conservation and natural resource management.

I U C N-Regional Office Southern Africa (ROSA) has a clearly defined mission:

> **"To facilitate and strengthen an integrated approach for the sustainable and equitable use of natural resources and conservation of biological diversity."**

In striving to meet this challenging mission IUCN-ROSA has developed four key strategic goals:

- Knowledge Generation: To develop, test, and demonstrate appropriate environmental and natural resources management systems.
- Policy Development: To influence and support the development and implementation of environmental and natural resource management policies at national, regional, and global levels.
- Information: To improve the availability and understanding of environmental and natural resource management information and advocate for its increased use in decision-making.
- Operations: To manage IUCN-ROSA in an effective, efficient, accountable, and sustainable manner.

Problem Identified

Since 1998 a number of IUCN-ROSA capacity building workshops have been conducted and member organisations have expressed the need for strengthening the capacity of their organisation. Following the completion of a Leadership and Governance Training Workshop in 2001 IUCN-ROSA agreed to produce a booklet containing guidelines to good governance for use by environmental agencies in Southern Africa.

This booklet is written for the directors and top management of development organizations, for it is they who must initiate the practice of leadership and good governance and create the framework within which other members of the organisation can operate effectively. We can term these top management interventions as strategic management (Paul, 1982).

A wide range of development programmes operates in Southern Africa today. Governments, international donors, and corporate bodies have contributed considerable amounts of money on them. However, the viability and performance of many programmes leaves much to be desired. Even the performance of agencies with appropriate technologies and adequate financing seem to perform below expectation.

The gap between promise and performance can, to a large degree, be attributed to a failure to integrate the policy and strategic planning decisions with the various segments or sub-systems of the organisation.

Many of the delegates attending IUCN-ROSA workshops have identified *management* as the main neglected factor (IUCN-ROSA, 2000).

A Management Responsibility

In compiling this booklet we have emphasised four basic educational themes. First, this material focuses on the tasks of the board and top management in leading the overall enterprise, in contrast to the tasks of a specialised manager whose responsibilities are limited to a sub-department of the total organisation.

Second, strategic management is seen as the key function and responsibility of the top management team, not as a staff activity.

Third, critical to the success of any organisation, is the chief executive's ability to manage the process by which an organisation formulates and implements its strategy.

Finally, we emphasise the importance of general management practice as a professional activity, the chief executive being responsible to multiple constituencies with conflicting goals and needs. He or she must manage the organisation so as to achieve both economic and social-ethical goals (Christenson, unpublished).

Throughout the booklet we have given emphasis to the board and top management responsibility for good governance. In an increasingly egalitarian world the leader of an organisation faces major questions as to his or her authority and administrative practices. He or she must govern in such a way as to achieve the cooperation and contribution of all involved parties.

2. FORCES OF CHANGE

When the rate of change outside exceeds the rate of change inside the end is near.

Source unknown

The Environment in Turbulence

Future Shock

Change is the name of the game today. As the environment changes, organisations must adapt, if they are to be successful. Many of the problems faced in Southern Africa are the result of an increasing rate of change, and are made more difficult because of the impact of future shock on organisations.

People are unprepared to deal with the accelerated rate of change in society. The world is constantly changing in economics, social values, and technology. Further, individuals within organisations are affected by change. No longer satisfied to be passive members, individuals increasingly assert their right to change the organisation for their own good.

A major challenge facing organisations is to manage effectively. To be successful, organisations must develop a management style that will adequately handle the new challenges and opportunities. Directors and senior managers must alter not only their behaviour but also their values and view of themselves.

CORPORATE GOVERNANCE - WHY IS IT IMPORTANT?

- **Different and changing world**
- **Increasing stakeholder activism**
- **Wider group of interested parties**
- **Demand for performance and conformance**

Demands for Social Change and Good Governance

Since 1980 a more demanding climate has developed among 'consumers' of corporate governance. The main concern has been over the competence - or perceived lack of competence - of many boards both in the private and public

sector. Following the findings of the Cadbury Report in the United Kingdom, the King Report on Corporate Governance was released in South Africa in 1994.[5] The majority of large public and private corporations in Southern Africa are following the recommendations contained in the King Report, which is particularly relevant to the emerging economies of the region.

Forces of Change

What are the forces of change for more effective practice in corporate governance? Six major forces can be identified, all of them operating internationally and all at work simultaneously:

Scandals and Internal Corruption

In most cases, the board's primary duty of trusteeship (its fiduciary duty) seemed to be subsumed to more pressing short-term and often personal ambitions, at the expense of stakeholders.

Lack of Standards

Roles and tasks of a board are not usually clearly spelt out. The failure of many organisations has caused investors to discard the assumption that boards must know what they are doing or they would not be there. They have become more public in their criticism.

Political and Legal Actions

Growing public disquiet leads inevitably to the cry "Something must be done". There has been a tightening of laws, environmental issues, worker rights, etc.

Sources of Funds

Donors, fund managers, and corporate bodies are becoming disappointed by underperforming boards. Powerful and influential funding organisations are calling for the old public sector values of accountability, probity, and openness, which seem set to become the norm for all boards.

Special Interest Groups

Small shareholder groups, environmental and human rights groups, all can have a significant effect on a board's thinking.

Ethical Decision-Making

The ethical aspects of decision-making will affect board values in the 21st century. Business contracts, corruption, and bribery in some countries make board accountability and transparency critical.

The external pressure for change in corporate governance will not go away. Directors must respond to demands before politicians legislate inappropriately. We need to take those old values of accountability, probity, and openness very seriously indeed.

3. A STRATEGIC MANAGEMENT APPROACH

Strategy is the major ongoing responsibility of the board.

Adrian Davies

Leadership and Strategic Management

An Integrated Approach

Strategic management has become the new buzzword in a field which, semantically speaking, stretches from management by objectives through strategic planning and business policy to the concept of strategic management.

The essence of strategic management includes strategy formulation, the realisation of the strategy as formulated by implementation of recommendations, and the management of the changes required to make the processes actually work. This implies philosophies of management, theoretical concepts, associated techniques, planning processes, and the management of change (Robinson, 1986).

The concept of strategy has been developed to include all the critical elements of the work of the chief executive. The term 'strategic management' now encompasses the total organisation including the identification of strategy, its formulation, implementation, and evaluation. The chief strategist, usually the chief executive, is solely accountable to the board for reshaping the organisation and must play a major role in determining the future direction of the organisation, which in turn means good governance.

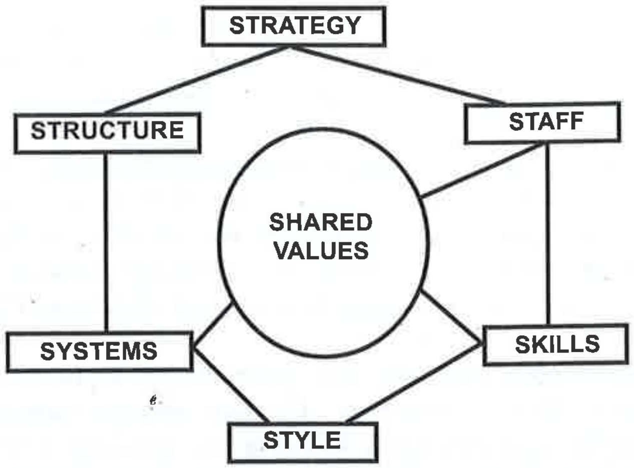
The Process

To succeed, the board must consider as a totality all aspects of the organisation, including those that affect the organisation from within and without. Historically, whenever the environment changed, organisations adapted their strategies accordingly. In today's turbulent world, major strategic shifts have become so frequent that a minor adaptation of capability puts an organisation in danger of never having an up-to-date structure. The concept of strategic management has emerged in response to this danger. Briefly, it puts the good governance of the organisation's capability on an equal footing with the planning of strategy.

The Seven Ss Model

McKinsey and Company developed a model termed the seven *S*s model which provides the ideal framework for the implementation of sound policy (Waterman and Peters, 1980).

THE SEVEN S's OF SUCCESS



Implementation of Board Policy

In implementing board policy (good governance), the neglect of any of the seven *s* factors could make policy implementation a slow and even doomed process.

Each factor is equally important and interacts with all the others. Any number of variables will dictate which *s* will be the driving force in the execution of any particular strategy.

The Seven Ss Approach

S1 - STRATEGY:	The development of strategies poses less a problem than their execution.
S2 - STRUCTURE:	Changes may have to be made to handle specific strategic tasks. Structure follows strategy.
S3 - STAFF:	People must be viewed as a vital resource to be managed aggressively - that is, to be nurtured and developed, talent must be identified, succession planning, and training is vital.
S4 - SYSTEMS:	This includes all formal and informal procedures: budgeting systems, training systems, and accounting systems. Systems can overpower expressed strategy. Development programmes may fail, if management information systems cannot produce the necessary data.
S5 - SKILLS:	What do we do best? Strategic changes may require organisations to add one or more new skills. Strategic initiatives that require the discarding of an old skill or way of doing things pose even more difficult implementation problems.
S6 - STYLES:	*Style* refers to the pattern of substantive and symbolic actions undertaken by the board and top management. It communicates priorities more than words alone and may profoundly influence organisational performance.
S7 - SHARED VALUES:	These are guiding values, concepts and aspirations that unite an organisation in some common purpose.

4. IN SEARCH OF A DEFINITION

The 21st Century promises to be the century of governance as the focus swings to the legitimacy and the effectiveness of the wielding of power over corporate enterprises worldwide.

King II Report on Corporate Governance (2001)

Code of Conduct

Following the findings of the King Report on Corporate Governance a Code of Corporate Practices and Conduct ('the Code') was adopted by the majority of the larger organisations in South Africa.

The Code requires the board to retain full and effective control in monitoring executive management and ensuring that material decisions remain within its jurisdiction.

> **CORPORATE GOVERNANCE DESCRIPTION**
>
> **A set of guidelines ensuring and enabling an organisation to conduct its business in an:**
>
> - **ethical;**
> - **legitimate;**
> - **fair; and**
> - **credible manner.**
>
> **In order to balance the diverse interests of its respective stakeholders relative to the current performance and future**

Whose Responsibility?

It is a fundamental responsibility of the Board of Directors to formulate, implement, monitor, and assess corporate governance.

Accountability

Most definitions of good governance have focused on systems and controls.

Improved performance may be a better measure, but the evidence and data is scarce. So the more measurable elements of good governance have been strengthened; audit functions, more non-executive directors, a separation of powers chairman/directors, and so on. All these steps underpin accountability, but do not ensure performance.

Performance

The importance of good governance lies in its contribution both to business prosperity (performance) and to accountability. Unfortunately accountability has preoccupied much debate to the detriment of performance.

The Organisation's Key Purpose

The Institute of Directors (U.K.) suggests that a definition of good governance must improve the effectiveness of the board by focusing on its key purposes (Institute of Directors, UK, 1997).

> **The board's key purpose is:**
>
> **"to ensure that the company's growth and prosperity collectively direct Board affairs, whilst meeting the legitimate interests of shareholders".**
>
> **A more effective board can add value.**

"Ultimately, it is our values that give us the stars by which we navigate ourselves through life."

Sidney S. Simon

Code of Ethics

To strengthen the concept of good governance it is recommended that organisations should have a Code of Ethics. The Code must be approved and supported by the board and subsequently cascade throughout the organisation.

The Code of Ethics should (The King Report on Corporate Governance, 1994):

- **commit the organisation to the highest standards of behaviour;**
- **be developed in such a way as to involve all internal stakeholders to infuse its culture;**
- **receive total commitment from the board and chief executive;**
- **be sufficiently detailed as to give a clear guide to the expected behaviour of all employees; and**
- **be continually communicated and reinforced by symbolic actions.**

Cultural Diversity

In developing economies management has to make productive the values, aspirations, and traditions of individuals, community, and society for a common productive purpose. If management does not succeed in putting to work the specific cultural heritage of a country and of a people, social and economic development is unlikely to take place. This is, of course, the great lesson of Japan. A century ago the Japanese put to work their own traditions of community and human values for the new goals of a modern industrialised state. It succeeded while many other non-Western countries have so far failed!

In developing codes of conduct, rules, and policies, top management must clearly understand that management skills are culturally specific: a management technique or philosophy that is appropriate in one national culture is not necessarily appropriate in another (Hofstede, 1984).

5. THE BOARD OF DIRECTORS

An effective board knows the difference between management and directing.

Jane Huria

The Making of Effective Boards

The Board Structure

Every company (organisation) should be headed by an effective board which should lead and control the organisation. There are three key elements that can be the making of an effective board (Institute of Chartered Secretaries and Administrators, South Africa, 2001):

- An effective board knows what they are there to do.
- An effective board measures its performance.
- An effective board has a balanced composition.

The King Report on Corporate Governance declares that the unitary board structure is appropriate in South Africa, rather than a management and supervisory board structure. The Board of Directors must retain full and effective control over the organisation, monitor executive management, and ensure that the decision on material matters remain in the hands of the board.

A Question of Balance

An effective board has a balanced composition, taking into consideration the skills, experience, age, gender, personalities, and other criteria appropriate to that board. To some degree an effective board can also usefully reflect the market they serve.

A balance of executive and non-executive directors is essential so that no individual or group of individuals can dominate the board's decision-making.

Directors - Who is a Director?

An organisation must of necessity act through agents, for it can act in no other way. The agents who guide the policy and monitor the activities of an organisation may be called by various names, but the most usual name is *Director*. It does not matter what you call them so long as you understand what their true position is, which is that they are people managing an organisation for the benefit of all stakeholders, both internal and external (Britzius, 1984).

The first duty of a director is not only to the shareholders but to the company itself as a legal entity.

Executive Directors

Executive directors occupy a dual position: they are both directors and employees of the organisation. The King Committee recommends that the employment contract of an executive director should not exceed five years in duration.

Non-executive Directors

The value in the non-executive directors lies in their ability to view company affairs objectively, since they are not involved in the daily operations.

Directors Must Act as a Board

The directors have a fiduciary duty to conduct the affairs of the organisation in what they honestly believe to be the best interest of the organisation and its stakeholders. In discharging this duty they must act as a board. A single director as such has no power to bind the organisation but only to the extent that such authority is delegated to him by the board (South African Company Secretarial Practice, 1984).

6. THE KEY PLAYERS

As the chief man of the city is, so the people shall be.

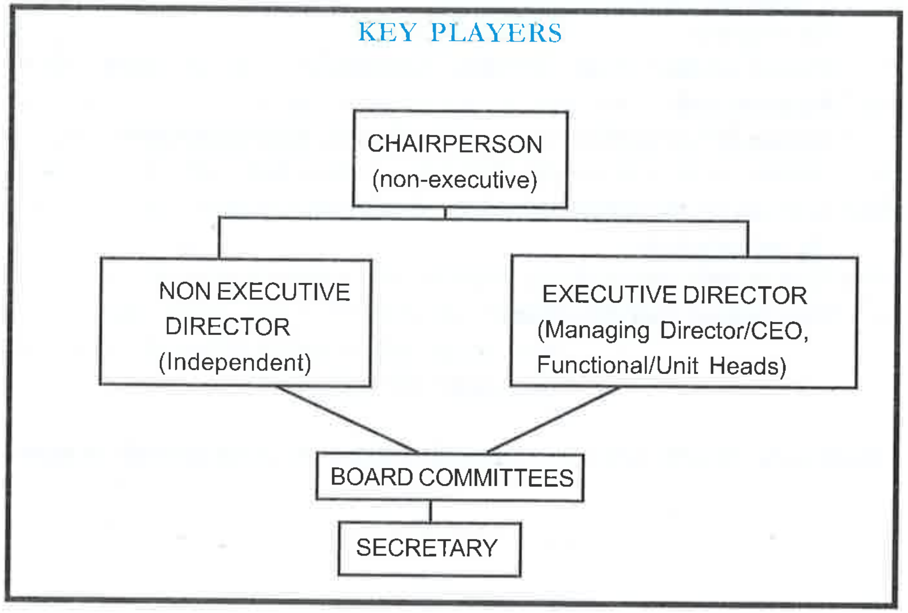
Ecclesiastes

A Climate that Only Leadership Can Achieve

A Constant Factor

Organisations are leaning more and more on clearly defined systems of control - production, sales and marketing - in order to eliminate the hit or miss atmosphere in which many businesses are conducted. However, neither work-study, nor market research, nor budgetary control is of value in itself if the leadership element is missing. A climate must be created which is receptive to good governance techniques (*Journal of Chartered Secretaries Australia*, 2002).

It is important not to confuse management techniques with the art of leadership. The two are complementary but they are not the same thing. Management techniques are being developed daily. The leadership element is constant. It is an act that is timeless.



Functions of the Key Players

There are two key tasks at the top of every organisation - the running of the board and the executive responsibility for the running of the business. One of the problems faced by most boards is creating an understanding of differentiating managing from directing.

The chairman is the head of the board, the chief executive is the head of business operations. Most directors do not under stand this.

The Chairman

The Chairman should, unless the board considers it not to be in the interests of the organisation, be a non-executive director and should not also be the chief executive.

There should be a clear division of responsibilities at the head of the organisation, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

The key functions of the chairman are to:
- Ensure the 'balance' of the board;
- Be objective;
- Ensure all directors are informed on any matter on which a decision is to be made; and
- Ensure non-executive directors contribute to business decision.

The Chairman should preferably:
- Be independent;
- Be non-executive; and
- Not be the Chief Executive.

Non-executive Directors

Organisations should appoint non-executive directors on the grounds of merit.

Non-executive directors should:
- have knowledge of the organisation;
- know the operating environment;
- have a knowledge of financing, staff and technical matters; and
- endeavour to ensure that the organisation works within the law.

The key functions of the non-executive director are:
- Special expertise and knowledge to be used on strategy, innovation and business planning;
- Monitor and review the performance of executive management;
- Resolve conflicts of interest;
- Act as a check and balance against executive directors; and
- Bring independent judgement to bear on decisions, performance, and standards of conduct.

The King Report strongly discourages 'cronyism' and 'tokenism' in the appointment of non-executive directors.
It is also emphasised that non-executives are not 'watchdogs' but rather partners providing a guiding influence to their executive colleagues on the Board.

Executive Directors

Executive directors occupy a dual position: they are both directors and employees of the organisation. They attend board meetings and exercise authority in no way less than non-executive directors. Appointments are usually terminable on resignation or retirement from the organisation.

Executive directors are able to devote their undivided attention to the interest of the organisation, and to bring professional knowledge, experience, and expertise wholly to the service of the organisation.

The Chief Executive

The senior general manager in any organisation is its chief executive officer. General management is in its simplest form the management of a total enterprise or an autonomous sub-unit.

The key functions of a chief executive can be viewed as those of:

- organisation leader;
- personal leader; and
- Chief architect of purpose. (Harvard Graduate School of Business, 1982).

Like any change strategy good governance cannot be implemented successfully unless it influences the daily decisions and actions of every member of the organisation. It must pervade the organisation's culture, systems and values. In other words, good governance must be institutionalised.

Chief executive officers have unique relationships with the organisation's strategies because they spend the majority of their time developing and guiding strategy. The personal goals and values of CEOs inevitably shape strategy. This fact gives CEOs a special role in strategy implementation.

- First, they interpret strategy; they serve as final judges when managers disagree on strategy execution.

- Secondly, CEOs enact - in their words and action - the seriousness of the organisation's commitment to a strategy to managers, workers, and customers.

- Third, CEOs motivate. They can mobilise support for strategy by appealing to values, beliefs, and loyalty of organisation members.

Appointment of Key Managers

One of the most important factors in successful strategy implementation is placing the right people in key managerial positions. The board must pay

particular attention to the appointment of senior managers. The board must look for individuals whose ability, education, experience, track record, and personality fit the situation with which they are faced.

Board Competence

The competence of a board is something that can only be assessed by the performance of the organisation over a period of time.

Some factors that have resulted in the effective performance of board members are:

Style of the Behaviour of the Board Members

Old Style	New Style
• Display total loyalty to the chairperson	• Manage the business and the affairs of the corporation
• Support management at all times	• Function as a trustee and professional advisor
• Be compatible - do not elevate professional judgement above brotherhood	• Take the job seriously - be professional
• Be legally correct (follow letter of the law)	• Do what is right (spirit of the law)
• Participate correctly and constructively	• Support only those who are worthy - be critical
• Go through the correct channels - stay within the accepted networks	• Insist on obtaining information promptly
• Take your perks and keep quiet	• Build good relationships on the board and in the broader organisation
• Do not 'rock the boat' (do not threaten, criticise	• Work on getting things right
	• If necessary, 'rock the boat'

Contributions of Board Members

Contribution of Board Members	Conduct of Board Members
• Take your perks and keep quiet • Informed and knowledgeable • Impartial and objective • Challenging, supportive, and encouraging • Prepared and present • Committed and enthusiastic • Involved	• Confidentiality • Transparency • Consultation • Respect and dignity • Honesty and trust • Mutual support • Constructive criticism

7. KEY FUNCTIONS AND TASKS OF THE BOARD

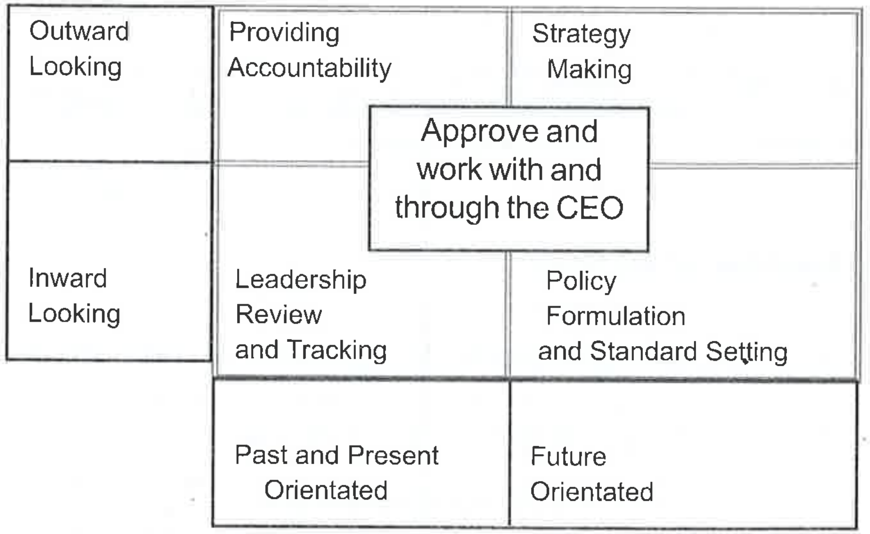
The art of leadership lies in the understanding that no two situations are always the same; each must be tackled as a wholly new problem to which there will be a wholly new answer.

Duke of Marlborough

Key Functions of the Board

- Develop and communicate the organisation's mission
- Monitor and evaluate long term strategy
- Monitor and evaluate corporate performance
- Assess senior management performance
- Manage CEO succession
- Maintain legal and ethical practices
- Communicate with all stakeholders
- Establish independent corporate leadership
- Evaluate performance of board
- Determine executive compensation
- Decide on policy that the organisation should pursue
- Enter into contracts and transactions on behalf of the organisation
- Conduct the overall business of the organisation

Task Framework



The Strategic Function of the Board of Directors

If the highest function of the chief executive is the management of the future-oriented development of the organisation, then it is necessarily the responsibility of the board of directors to see that the job is adequately done.

The consensus developing in the revival of board effectiveness is that working boards will not only actively support, advise, and assist management, but will also monitor and evaluate management's performance in the attainment of planned strategies.

Boards are expected to exhibit in decision behaviour their responsibility for the legality, integrity, and ethical quality of the organisation's activities and financial reporting and their sensitivity to the interests of stakeholders legitimately concerned about organisational performance.

The special skill involved in perceiving and communicating the strategic significance of a business decision may be of the highest importance in the selection of non-executive directors and in building active and effective boards as normal adjuncts to competent professional management.

A Mission to Succeed

The board must define the business purpose and mission of the organisation. This will provide the focus for all other activities. Formulation of the mission is only the beginning of good governance but it is most significant.

The articulation of this strategic step will answer the question:

"What business are we in?"

As Peter Drucker has pointed out - failure to ask this question clearly is the most important single cause of failure.

Organisational Purpose

Purpose is the ultimate rationale for the organisation and provides all people with a justification for their work. It deals with the philosophical question of what is the role of the organisation in society.

The Mission Statement

Every organisation is unique in some way and each will have a different set of principles about its responsibility to its stakeholders. The best mission statements make these commitments or guiding principles clear.

Values and Guiding Principles

Values and morally based beliefs of the organisation are the cornerstone of good governance because they are the assumptions behind many of the rules and behaviour standards. It is vital that they are communicated and clearly understood.

Strategy

Strategy is the rationale for how the organisation is going to achieve its mission. Two questions will help the board include the appropriate level of strategy in the mission statement (Campbell, 1991):

1. **Does the statement define a business domain and give the reader confidence that the organisation knows the business it is in?**
2. **Does the statement make the organisation unique? It should identify an organisation's basic characteristics and values.**

The Test of a Mission Statement

The only real test of a mission statement is to ask:

Can anyone dispute it?

ACTIONS ARE STRONGER THAN WORDS

I do not hear what you say, for what you are doing is shouting at me.

Zulu proverb

Behaviour Standards

Good governance is only real when statements, policy, and actions affect behaviour.

- **Strategy - Contains messages about what should be achieved.**
- **Values - Contain messages about how things should be done.**

When strategy and values support each other the behaviour messages are doubly powerful. However, these messages will not achieve anything until they are translated by the board into behaviour standards. Organisations with a clear mission have a few behavioural standards that have come to symbolise their purpose, strategy, and values.

Standards - The Board's Responsibility

It is the responsibility of the Board of Directors to formulate, implement, monitor, and assess the organisational performance. Guidelines and standards must be introduced to enable the organisation to conduct its business in an ethical, legitimate, fair, and credible manner.

Monitor and Evaluate

With increased scrutiny and accountability there is greater pressure on boards to measure and improve their own performance and that of the organisation.

There are a number of forms of board performance review, some of these are:

- Individual director assessment
- Board self-evaluation
- Evaluation by a committee of the board
- Evaluation by an outside consultant

It is impossible for any board to compensate for an inadequate chief executive, an effective board will not allow an incompetent chief executive to continue in the role.

The effective board therefore objectively and regularly evaluates the performance of their chief executive against mutually agreed goals and objectives. There may be merit in using an outside resource to assist with the review (*ICSA Journal*, 2001).

Worker Participation

Organisations should establish systems to involve workers, worker committees, executive committees, and boards that will assist in developing the following:

- practices that lead to the sharing of information;
- consultation methods to involve workers in employee related policy and decisions;
- speedy identification of non-productive conflict and its effective resolution;
- good labour relations; and
- career development.

Where necessary affirmative action programmes should be part of each organisation's strategic plan.

Window dressing appointments should be avoided particularly at director level.

Openness and Transparency

Every organisation should disclose regularly to its stakeholders (internal and external) the nature and extent of its commitment to social, ethical, safety, health, and environmental practices, as well as organisational integrity.

Public disclosure should be governed by the principles of materiality, relevance, clarity, comparability, timeliness, and verifiability.

It is the Board's duty to present a balanced and understandable assessment of the organisation's position when reporting to stakeholders.

The board should maintain open, understandable, and consistent communication with all stakeholders.

The term 'stakeholders' is often used but seldom defined.

"A stakeholder is any person, entity or interest group that has some association with the organisation."	
• Shareholders • Government • Donors • Suppliers • General public	• Consumers • Workers/employees • Manager • Directors • Pressure groups

Reports to stakeholders should include:

- Employment matters
- Environmental matters
- Social responsibility
- Customer interest
- Supplier interest
- Financials

Significant statements (positive or negative) should be provided to all stakeholders. The narrative of reporting must be consistent and simple enough to be understandable to the average stakeholder.

Questions to Ask

Is our communication:

- **Open or transparent**
- **Prompt**
- **Relevant and substantial**
- **In a form which fairly sets out the position**

Annual Report

For Annual General Meetings to be used properly:

- **Questions on the annual report must be asked**
- **Forms for written questions should be provided before the meeting**
- **A summary of important matters circulated**

The directors should report on the following matters in their annual report:

- Financial statements that fairly present the state of affairs
- The profit or loss for the year
- An auditor's report
- Accounting records and systems of internal control
- Accounting policies supported by reasonable and prudent judgements and estimates
- Adherence and/or departure from accounting standards
- Any reasons why the organisation will not be a going concern in the year ahead

- The Code of Corporate Practices and Conduct, and any deviations therefrom

- The appointment of directors and senior officials.

Appointment of Auditors

In pursuance of good governance every organisation should, in addition to appointing external professional auditors, have an effective internal audit function that has the respect of both the board and management. (See Board Committees Part 8.)

8. BOARD COMMITTEES

The most important characteristic of an effective committee is a degree of healthy dissent.

M. Syrett

Corporate Governance Principles and Board Committees

Introduction

A Board Committee is a functional body appointed by the board to perform specific duties. It should not be empowered to determine policy, this matter should not be delegated.

The directors have no power to delegate any of their functions or duties to a committee unless the Articles or the Constitution expressly give them such power.

Authority Levels

The main function of a Board Committee is to take matters from general board involvement and apply to them a higher degree of attention. A committee when appointed has no implied powers; it derives its authority from the board. All the intended powers of the committee must be clearly stated in the written resolution of the board. A committee may, if authorised by the resolution appointing it, in turn appoint a sub-committee from among its members for any particular matter.

General Principles

There should be a formal procedure for certain functions of the board to be delegated to enable the board to properly discharge its duties. Board Committees are an important element of this process.

- Board Committees must have formally determined terms of reference, roles and functions, with full disclosure to the board.

- Minimally, each board should have an Audit and Remuneration Committee.

- All Board Committees should preferably be chaired by an independent non-executive director with non-executive directors playing an important role in these committees.

Audit Committee

The board should establish an Audit Committee with written terms of reference confirmed by the board. The Audit Committee should consist of at least two non-executive directors, of whom one should act as chair. The head of the internal audit team should have unrestricted access to the Audit Committee. The highest level of business and professional ethics must be observed by the auditors and, in particular, the independence of the auditors must not be impaired in any way.

Audit Reports and Findings

The internal and external audit teams should bring all significant findings arising from audit activity to the attention of the Audit Committee and, if necessary, the board.

Remuneration Committee

Good governance calls for the establishment of a Remuneration Committee. There must be greater clarity on the principles of compensating executive and non-executive directors, so that the remuneration of directors and senior executives would better reflect the performance and contributions to the organisation.

Nominations Committee

In some countries a transparent election and appointment process is sufficiently evidenced by establishing a Nominations Committee. The King Report (South Africa) does not support the concept of a nominations committee and recommends that the selection and appointment of directors should be matters for the board as a whole.

To achieve board effectiveness proper selection is essential. The following process is recommended (Report of the King Committee, 1994):

- Plan the board by use of strategic considerations (Structure follows Strategy)

- Specifications should be developed (e.g. integrity, independence, courage, grasp of realities, understanding change)
- Search for and screen new directors
- Visit operations, meet senior executives, and become familiar with the organisation. Possibly train, if inexperienced.

The selection of the board must be managed.

Reporting to the Board

The role of a non-executive director in addition to chairing meetings of the committee is to report back to the board on its operations and findings. This can be done in several ways (Journal of Chartered Secreataries, 2001):

- Verbally updating the board at each board meeting. This should be a standard agenda item
- Distributing committee minutes for information and discussion by direc tors
- Providing detailed written reports
- Reporting any adverse discovery that may impact on the operations of the organisation.

9. ROLES AND COMPETENCIES

> **"The soldier has a right to competent command" was already an old maxim at the time of Julius Caesar. It is the duty of every leader to make sure that the responsible people in their organisations perform.**

Good Governance is Worth Measuring

Board Performance

Good governance is about promoting, supporting, and advising innovative managers while holding them accountable. There is now substantial consensus among investors about what is expected of boards: to evaluate long-term strategy, corporate, and management performance, maintain legal and ethical standards, manage chief executive succession, and be accountable to stakeholders.

Four Golden Rules

Directors must:

- use the care and diligence of a reasonable director;
- act in good faith;
- not use their position improperly to gain an advantage; and
- not improperly use information obtained because of being a director.

Whatever the function of the organisation, the role of its board is to optimise performance to the benefit of its stakeholders.

The Evaluation Process

The first step in the process is to set standards for evaluating the performance of the board.

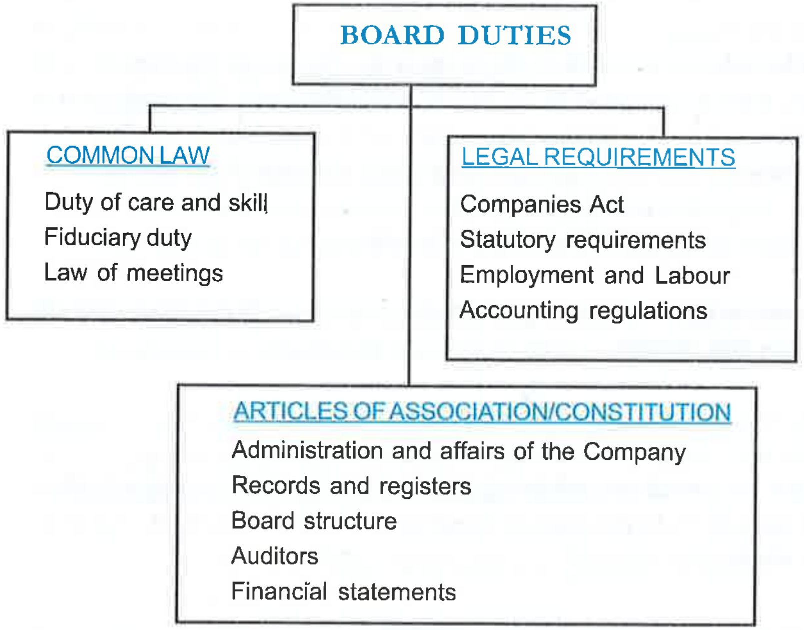
For the evaluation process to work it is necessary that all board members be

committed to the process. The board should then (*Journal of the Chartered Institute of Secretaries*, 2000):

- set performance standards or criteria;
- plan the process and gather the information;
- discuss and interpret the data;
- develop a plan of follow-up; and
- identify areas of improvement and set objectives (Journal of the Chartered Institute of Secretaries, 2000).

Standards and Measurement of Performance

In setting performance standards the board must clearly understand the scope of the board's powers, roles, and responsibilities by examining the Memorandum and Articles of Association (Constitution) and other prescribed guidelines or legal requirements.



We now turn from structural considerations to other influences on organisational governance. Individual effort must be successfully directed towards organisational goals.

The system to influence behaviour is made up of six elements:

1.	**Standards**	**4.**	**Rewards**
2.	**Measures**	**5.**	**Penalties**
3.	**Incentives**	**6.**	**Controls**

Establishment of Standards

If progress towards strategic goals is to be supervised, it will have to be observed and measured. To state where an organisation ought to be is to set a standard.

Evaluation Criteria

A management evaluation system must employ a number of criteria, some of which will be subjective and difficult to quantify. No single measure can encompass the total contribution of the board or an individual. The evaluation of performance must not be focused exclusively on a single standard which may cause executives to act contrary to the long-range interests of the organisation.

Motivation and Incentives

Efforts to encourage and reward performance must take precedence over the effort to deter and restrain.

Formal Control

Controls may be formal and informal, that is, prescribed and emergent. Management is more likely to give explicit attention to the formal controls that it has itself prescribed.

Ethical Standards

In attempting to establish a system of controls the area of ethical standards often proves the most difficult. In highly competitive situations the pressure for results can lead individuals into illegal and unethical practices. Group norms may encourage yielding to these pressures. The post-Watergate climate of the

1970s has modified sharply the general attitude towards long established dubious practices. The environment is fast becoming more favourable to maintaining high ethical standards.

The board may have to resort to penalties like dismissal that are severe enough to dramatise opposition to ethical policy.
A system of inspection and audit is therefore implicit in formal control.

Steps to Good Performance

The central function of an effective board is to continually review management's implementation of strategy.

STEP 1: Strategy Making

- Direct and guide strategy crafting process and its outcomes.
- Determine the mission and philosophy of the organisation to guide its operations and development.
- Review and evaluate present and future opportunities, threats, and risks in the external environment, and current and future strengths, weaknesses and risks in the people, products and other assets of the business.
- Review and confirm the suitability and effectiveness of business policies to achieve the mission of the organisation.

Determine and review the operational plans to implement the overall strategic intent. Approve achievable 'milestone' objectives and ensure fit between business plans, resource availability, and strategic intent.

STEP 2: Policy Formulation and Standard Setting

Ensure adequate translation of strategic goals and operational plans into policies and standards.

Determine and review company policies and standards designed to match its mission and associated plans.

to ensure the objectives will be met. Specifically *(Journal of Chartered Secretaries Australia, 2002):*

- Operational action plans are developed from the strategic goals. From these the organisational structure and the roles and responsibilities of members of the organisation are clearly defined and communicated in job descriptions, performance criteria, policies, and procedures.

- Delegations are put in place to ensure responsibilities are matched with the necessary authority levels.

- A code of conduct that provides members of the organisation with the expected standard of behaviour, and fosters a culture of trust and builds relationships is essential.

- Monitoring and reported systems are put in place to ensure conformance.

- Information builds the foundations of good governance. Internal and external reporting provides accountability.

A high level of good governance with all its implications for the behaviour of organisations does not happen by chance. It is a result of planning, commitment, goal setting, and the selection of leaders with depth of character.

ANNEXTURE A

Code of Corporate Governance (Principles)

Board Matters

The Board's Conduct of its Affairs

1. Every organisation should be headed by an effective board to direct and control the organisation.

Board Composition and Balance

2. There should be a strong and independent element on the board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the board's decision making.

Chairman and Chief Executive Officer

3. There should be a clear division of responsibilities at the top of the company - the working of the board and the executive responsibility of the organisation's business - which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Board Membership

4. There should be a formal and transparent process for the appointment of new directors to the board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

Board Performance

5. There should be a formal assessment of the effectiveness of the board as a whole and the contribution by each director to the effectiveness of the board.

Access to Information

6. In order to fulfill their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

Remuneration Matters

Procedures for Developing Remuneration Policies

7. There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Level and Mix of Remuneration

8. The level of remuneration should be appropriate to attract, retain, and motivate the directors needed to run the organisation successfully but organisations should avoid paying more for this purpose. A proportion of the remuneration, especially that of executive directors, should be linked to performance.

Disclosure on Remuneration

9. Each organisation should provide clear disclosure of its remuneration policy, level, and mix of remuneration, and the procedure for setting remuneration, in the annual report to stakeholders.

Accountability and Audit

Accountability

10. The board is accountable to the stakeholders while the Management is accountable to the board.

Audit Committee

11. The board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

Internal Controls

12. The board should ensure that the Management maintains a sound system of internal controls to safeguard investments and assets.

Internal Audit

13. The organisation should establish an internal audit function that is independent of the activities it audits.

Communication with Stakeholders

14. Organisations should engage in regular, effective, and fair communication with stakeholders.

15. Organisations should encourage greater participation at AGMs, and allow stakeholders the opportunity to communicate their views on various matters affecting the organisation.

Source: Hong Kong Institute of Company Secretaries (June 2001)

ANNEXTURE B

Ethics of a Decision

Ten Questions for Examining the Ethics of a Business Decision

1. Have you defined the problem accurately?

2. How did the situation occur?

3. To whom and to what do you give your loyalty?

4. What is your intention in making this decision?

5. How does this intention compare with probable outcomes?

6. Who could your decision injure?

7. Can you discuss the problem with affected parties before making the decision?

8. Could you disclose your decision to your family, friends, or society as a whole?

9. Are you confident that your decision will be as valid over a long period of time as it seems now?

10. Under what conditions would you allow exceptions?

Source: Laura N. Nash "Ethics without the Sermon", *Harvard Business Review* 59 (November 1981)

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