Real world governance: Driving business success through effective corporate governance

Geoffrey Kiel and Gavin Nicholson

A well-governed company may be every board’s goal, but a lack of useful information can make getting there tricky. What’s needed is a sound, practical guide to identifying, customising, implementing and evaluating governance best practice. And here it is ...
A GLANCE AT any daily newspaper or business publication over the past 18 months reveals that directors are increasingly being held accountable for corporate failures and poor firm performance. Shareholders, community groups, the legal system and politicians have greater expectations than ever before in terms of corporate behaviour. Moreover, these and other stakeholders have become increasingly outspoken in their demands for corporate accountability through effective governance.

In response to the increasing importance of governance, there has been an escalation of normative advice as to what good governance entails. But few sources that identify governance problems actually recommend what specific actions a board can take to improve its governance practices, and even fewer acknowledge the contextual or contingent nature of corporate governance.

The reason for this lack of practical advice is that there is no all-encompassing, definitive answer to the question of how to implement an effective corporate governance system. 'One size fits all' is not a motto that applies to corporate governance. Companies come in all shapes and sizes: small family companies, not-for-profits, government-owned corporations, statutory authorities, publicly listed companies and vast multinationals, to name just a few. Since these companies' governance needs vary enormously and change over time, it is impossible to identify a single governance recommendation that is universally applicable.

The objective of this paper is to demonstrate to directors that, in spite of uncertainty, it is possible to meet the growing challenges of governance and find practical solutions to governance problems.

WHAT IS BEING ASKED OF BOARDS?
It is generally agreed that the board has two major responsibilities, conformance and performance. Conformance responsibilities relate to the past and present behaviour of the company: the board must ensure that it monitors and supervises management and provides accountability to external stakeholders. This most often occurs through monitoring of the financial and non-financial aspects of business operations, ensuring all relevant legal requirements are met and evaluating performance in all key areas of corporate operations.

While the conformance responsibilities of the board are well-established, the performance element of board responsibility is less developed, but increasingly significant. Escalating shareholder activism and the growing influence of institutional investors mean that the board needs to focus on the future, as directors are increasingly held accountable for firm performance. However, knowing that the board has conformance and performance responsibilities is not enough; boards are seeking to understand how to ensure these responsibilities are acted on through defining the specific roles required of them, and identifying how to effectively perform these roles.

BOARD ROLES
Despite general agreement on the conformance and performance responsibilities of the board, there is no clear role set agreed by either practitioners or academics. In fact, there is little agreement about what boards should do beyond the three very broad categorisations of 'controlling' the organisation, providing 'advice' to management (also called 'servicing' the organisation) and providing 'access to resources'.

Table 1 highlights the variation among academics and practitioners as to what is a board's role.

The lack of a clearly defined role set is also reflected in the business press and prestigious reports on improving governance. When cases such as Enron and Ansett hit the headlines, the media and public conclude that the board is either responsible for corporate failure, or did not take the right steps to avert it. Whether these conclusions about board accountability are right or wrong, the key outcome of such events has been to concentrate corporate governance debate on the monitoring role of the board and the importance of independent directors as a mechanism to reduce agency costs and avert corporate collapse.

When cases such as Enron and Ansett hit the headlines, the media and public conclude that the board is either responsible for corporate failure, or did not take the right steps to avert it.

International normative guidelines also reflect this concentration on the monitoring role of the board. As Table 2 illustrates, these sources offer structural guidelines for best practice, which generally consist of recommendations to ensure board independence.

Why is there such a focus on monitoring? This view of what a board should do may, in fact, be a result of
### Table 1

**Key board roles**

<table>
<thead>
<tr>
<th>Author</th>
<th>Key Perspective</th>
<th>Board Roles</th>
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</table>
| Pfeffer and Salancik (1978, *The External Control of Organizations: A Resource Dependence Perspective*, Harper & Row, New York) | View the board as a key link to the external environment | • Serve as a co-optive mechanism to access resources vital to the organisation  
• Serve as boundary spanners  
• Enhance organisational legitimacy |
• Exercise direct control during periods of crisis  
• Review managerial decisions and performance  
• Co-opt external influences  
• Establish contacts (and raise funds) for the organisation  
• Enhance the organisation's reputation  
• Provide advice to the organisation |
| Pearce and Zahra (1991, 'The Relative Power of CEOs and Boards of Directors: Associations with Corporate Performance', *Strategic Management Journal*, vol 12, no 2, pp 135-153) | Academic review of the relative powers of the CEO and board of directors | • Establish the strategic direction of the organisation  
• Engage with the wider business and general community to gain access to the resources the firm needs to achieve its goals (eg capital)  
• Contribute to the development of the firm's mission and goals  
• Monitor firm performance  
• Provide counsel and advice to the CEO  
• Evaluate the CEO |
| Hung (1998, 'A Typology of the Theories of the Roles of Governing Boards', *Corporate Governance: An International Review*, vol 6, no 2, pp 101-111) | Review of the academic literature on board roles | • Link the organisation to the external environment  
• Co-ordinate the interests of shareholders, stakeholders and public  
• Control the behaviour of management to ensure the organisation achieves its objectives  
• Strategy formulation  
• Maintenance of the status quo of the organisation  
• Support management |
• Oversee strategy implementation and performance  
• Develop and evaluate the CEO  
• Develop human capital  
• Monitor the legal and ethical performance of the corporation  
• Prevent and manage crises  
• Procure resources |

continued …
### Table 1
**Key board roles (cont)**

<table>
<thead>
<tr>
<th>AUTHOR</th>
<th>KEY PERSPECTIVE</th>
<th>BOARD ROLES</th>
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</table>
| Hilmer and the Independent Working Party into Corporate Governance (1998, *Strictly Boardroom: Improving Governance to Enhance Company Performance*, 2nd ed, Information Australia in association with the Sydney Institute, Melbourne) | Look at the practical elements of a board's role in the wake of corporate collapses of the late 1980s and early 1990s | • Appoint the CEO  
• Oversee HRM policy and senior executive appointments  
• Strategy and policy  
• Oversee budgeting and planning  
• Report to shareholders and regulatory requirements  
• Ensure its own effectiveness |
| Toronto Stock Exchange (1994, *Where were the Directors?*, Toronto Stock Exchange, Toronto) | A post-1980s crisis review of corporate governance | • Assume responsibility for strategic planning  
• Identify and manage risk  
• Appoint, train and monitor senior management  
• Maintain organisation's communication policy  
• Manage information systems |
• Adopt strategic plan  
• Ensure clearly defined delegations of authority  
• Monitor risk management systems  
• Oversee compliance policies and practices  
• Ensure company has policies to communicate with shareholders, stakeholders and public  
• CEO selection, replacement, remuneration and succession  
• Director selection  
• Board evaluation |

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the attention that the media and politicians pay to corporate disasters. When society thinks of board roles, it is invariably in the context of a collapse or significant decline in corporate financial performance. So, an unrepresentative focus on monitoring may be driving our understanding of how boards make a difference. There are clearly board roles other than monitoring that are essential to ensuring optimal firm performance, but these are generally ignored by normative guidelines that reflect a preoccupation with the board’s monitoring role.

This emphasis on monitoring is seen in the number of empirical investigations that concentrate on the relationship between board independence and firm performance, or between CEO duality (one person filling both the CEO and chairman positions) and firm performance. Despite numerous studies, there are no consistent findings of a significant relationship in either case. For
example, meta-analyses of board composition in the US totalling 60,780 firm-years have failed to identify a substantive relationship between board composition and firm performance. The findings on CEO duality have likewise been mixed, with both individual studies and meta-analysis failing to find a consistent relationship. Our own research confirms these results in the Australian context.

More recently, however, academic research has begun to broaden its search for a board-performance nexus by examining board roles other than monitoring. For example, Westphal provides empirical evidence that CEOs and boards who collaborate in the strategic decision-making process positively contribute to firm performance. Golden and Zajac’s investigation of the board’s involvement in strategy found that, in the governance of hospitals, board processes and demography significantly affected strategic change. Researchers like Westphal have also recognised the board’s importance in advising and counselling senior management in general, and the CEO in particular.

Table 2
International guidelines

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>GUIDELINE/REPORT</th>
<th>RECOMMENDATION</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Size of board</td>
</tr>
<tr>
<td>US</td>
<td>NACD Blue Ribbon Commission (2000, Report of the NACD Blue Ribbon Commission on the Role of the Board in Corporate Strategy, NACD, Washington)</td>
<td>Board to determine</td>
</tr>
<tr>
<td>Canada</td>
<td>Toronto Stock Exchange Committee Report (1994)</td>
<td>10-16, board to determine</td>
</tr>
<tr>
<td>Australia</td>
<td>Bosch Report (1995)</td>
<td>Nomination committee to devise criteria</td>
</tr>
<tr>
<td>International</td>
<td>OECD Principles of Corporate Governance (1999, OECD, Paris)</td>
<td>N/A</td>
</tr>
</tbody>
</table>
To provide guidance on the board’s role set, we have identified nine board roles. These roles are based on those proposed by three significant reports on corporate governance practices: (Strictly Boardroom: Improving Governance to Enhance Company Performance; the Toronto Stock Exchange Committee’s Where Were the Directors?; and Corporate Practices and Conduct), as well as on our own and other academic research. These board roles are set out in table 3.

While we believe there is a clear set of roles a board needs to perform, it is important to note that the emphasis a board places on each role is not uniform. By that, we mean emphasis on the execution of each role will vary from corporation to corporation, and be contingent on a variety of factors. These include company size, corporate lifecycle, management team experience, dynamics of the company’s operating environment, stability (or crisis level) of the company’s current operations and strategy. Thus, while we contend there is a universal set of roles boards must fulfill, the emphasis on each of these nine items needs to be refined on a case-by-case basis by individual boards, and will necessarily vary over time.

Table 3

<table>
<thead>
<tr>
<th>KEY BOARD ROLES</th>
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<tbody>
<tr>
<td>1. Strategy formulation and approval, including the development of major goals</td>
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<td>and strategies in conjunction with the senior management team</td>
</tr>
<tr>
<td>2. CEO selection, monitoring, evaluation, mentoring, remuneration and, when</td>
</tr>
<tr>
<td>necessary, removal</td>
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<tr>
<td>3. Monitoring of organisational performance</td>
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<tr>
<td>4. Overview of risk management policies, practices and performance</td>
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<tr>
<td>5. Overview of compliance policies and practices</td>
</tr>
<tr>
<td>6. Ensuring an appropriate top-level policy framework exists and ratify specific</td>
</tr>
<tr>
<td>policies</td>
</tr>
<tr>
<td>7. Networking on behalf of the organisation to assist in achieving organisational</td>
</tr>
<tr>
<td>goals</td>
</tr>
<tr>
<td>8. Communication with key stakeholder groups, in particular shareholders</td>
</tr>
<tr>
<td>9. Exercising control of the organisation in times of crisis</td>
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</table>

ENACTING THE AGREED BOARD ROLES

Once a board has prioritised the items in its role set, it must establish processes, policies and procedures to carry out them out. Very few information sources that identify governance problems (eg monitoring lapses) actually recommend specific actions a board can take to improve its governance practices. Even fewer of these sources actually acknowledge the contextual or contingent nature of corporate governance.

John Pound has gone some way to acknowledging the importance of process to effective corporate governance by suggesting that governance is not primarily about power (who controls what), but rather about ways of ensuring effective corporate decision-making. He argues that most performance crises arise, not from management or board incompetence, but from errors of judgment. Therefore, effective boards are ones that foster open debate and discussion, are focused on adding value to the firm through more effective reviews of management decisions, and are keen to exchange information with all stakeholders.

As a result, important insights into board effectiveness can be found in theories of group process. While terminology differs, various theories recognise an observable set of behaviours that all groups experience. The most well known of these is the ‘forming – storming – norming – performing’ model of Tuckman. Applying this model to a board of directors, we recognise that for the board to make effective decisions (as per Pound), it must be in the ‘performing’ stage.

In the ‘forming’ stage, directors will exhibit behaviours that emphasise civility and politeness – and avoid disagreement and confrontation, producing a dynamic where a board will not raise the difficult issues. In the ‘storming’ stage, board members will begin the process of disagreement – but not necessarily reach any real shared outcomes (ie, the conflict is most likely not constructive). However, once the board has moved through the ‘norming’ stage and established (either overtly or subliminally) its operating policies and behavioural expectations, it can begin to function as a true collective. It is at this stage that a board can truly question, debate and explore the issues before it, resolve a course of action and deliver a commitment to the agreed direction.

While many boards will naturally move through this cycle, it is our experience that a facilitated process can assist a board to reach the ‘performing’ stage sooner. In particular, a facilitated process – where board members work as a team on specific issues that impact their governance roles – has the dual benefit of enabling members to agree and decide upon their roles at the same time as establishing a set of explicit and
implicit behavioural expectations to ensure these roles are carried out in the most effective manner.

THE CORPORATE GOVERNANCE CHARTER MODEL

The Corporate Governance Charter model (figure 1) has been developed as both a structure and a process to build more effective boards. In particular, it helps a board drive business success by guiding a process that matches a company's governance system to its organisational needs. There are two primary benefits in employing this model. First, it creates a major policy document that can assist the corporation's leadership to deliver good governance, and act as a point of reference for disputes and as an induction tool for new directors and senior managers. It does this by clearly elaborating an agreed set of roles and expectations for the board and establishing key governance practices. Second, and perhaps more importantly, it guides strategic conversations at board level to move members to the 'performing' stage of group process. As a process, the Corporate Governance Charter model provides a forum to discuss 'unmentioned' issues that are often not addressed and can lead to conflict and poor governance. It is a team development technique where board members work with each other and senior management on issues of fundamental importance to the company, to get to know each other's strengths and styles and enhance levels of trust. Finally, as a process it provides a springboard to corporate strategic planning by determining the boundaries between board and management decisions.

The model illustrated in figure 1 is conceptualised as a wheel divided into four quadrants representing the essential elements of corporate governance. The aim is to guide boards progressively through an assessment of their performance in each of these key areas, and to suggest ways of implementing strategies for change in each. The first quadrant of the model is 'defining governance roles'; the second looks at 'improving board processes'; the third describes 'key board functions'; and the fourth focuses on 'continuing improvement', which relates to issues that will lead to enhanced board performance in the future.

DEFINING GOVERNANCE ROLES

While Australia's Corporations Act specifies that the board, as a group, bears ultimate responsibility for the company that it governs, what is not clear is how a board should begin to handle this responsibility. To assist in this regard, the Corporate Governance Charter model begins by asking directors to consider the overall philosophy of governance that the board is to adopt, and how governance differs from management for this individual organisation.

As outlined earlier, the answer to this question will vary with the circumstances facing the company. Factors such as ownership structure, stage of maturity, strategies employed and the industry and business environment will all affect the way a board views its purpose in governance and its relationship with management. Of course, the individual strengths and weaknesses of existing board members also significantly affect the board's view of governance.

Once a board has adopted a clear view of its responsibilities in governing the company, members can then discuss and agree on the most effective way of structuring the board. A first question will focus on board size. Is the board too small or too large to adequately perform its tasks, given the size and complexity of the organisation? A second question addresses the balance of executive and non-executive directors, and whether independent directors are necessary. Boards also need to consider the optimal skills mix to deliver effective governance, given the nature of their company. For instance, is regional representation on the board desirable, or perhaps a director representative of a key stakeholder? How important is relevant industry experience? Is a lawyer
interaction tend to stem from a simple misunderstanding of the relationship between the respective roles of board and management, a problem that can usually be avoided through shared understanding and development of governance roles.

**IMPROVING BOARD PROCESSES**

Once board members are comfortable in their roles, their focus tends to turn to productivity issues. How effectively is information exchanged between members? What are the best communication strategies to ensure effective decision-making? In our experience, effective board process is the key. Accordingly, the second quadrant of the model encourages board members to consider the effectiveness of their meeting procedures, agendas, papers and minutes, as well as the board calendar of events and the process of board committees.

The board meeting is the linchpin of a corporation’s governance processes. Successful meetings achieve a common goal through effective communication and collective action. For meetings to be successful, it is important to recognise that each meeting has its own dynamic, and outcomes depend on the personalities, needs and intentions of those present. Similarly, outcomes are influenced by the degree of complexity of the issues under consideration, and by the legal and time restraints that govern board process. Bearing all this in mind, effective meetings depend on planning, orderly conduct and active participation by all board members.

Central to the planning process for all board meetings is the agenda and associated board papers. A well-designed agenda aids the flow of information and shapes subsequent discussion by the board, while papers are its key source of information. The formats of individual board submissions tend to be fairly similar in well-governed organisations: typically, each paper states its purpose, provides background information on an agenda item, presents major issues for consideration and makes recommendations. A full set of board papers prepared for directors should include an agenda, the minutes of the previous meeting, major correspondence, the CEO’s (or equivalent’s) report, including details on risk/compliance (unless covered elsewhere), financial reports and documentation supporting submissions that require decisions.

As part of any systematic review of its corporate governance processes, a board will need to consider its workflow during the year. In general, the efficiency
and effectiveness of board process will be improved by developing a structured annual calendar of major board events. This ensures specific items are discussed at the appropriate time, that enough time is provided for preparatory work leading up to a major meeting, and that routine (but less interesting) aspects of the board’s work are not overlooked.

Another way of improving the efficiency of board process is through the creation of committees. A committee is a group of members to whom some specific role has been delegated. Committees can be used to gather, review and summarise information and report back to the full board for decision, or can be assigned specific decision-making powers. As the workload for boards has increased, so has the tendency to create a variety of committees to deal with specific issues. They can also be useful tools for building individual director expertise in addition to lightening the workload of the entire board. Three of the more common, and generally more important, of these are the audit committee, the remuneration committee and the nomination committee. Whether a committee’s role is to make recommendations or make decisions, it is important to develop ground rules to ensure its subservience to the board.

**KEY BOARD FUNCTIONS**

Perhaps the toughest challenge for directors is to determine, objectively, the effectiveness of their boards. What does (or should) our board do? Are these the issues that should be occupying our time? By examining the critical functions of the board in the corporate governance system, the third quadrant of the Corporate Governance Charter model guides directors through areas of fundamental importance to every board. These include strategy formulation, the service/advice/contacts role, monitoring, compliance, risk management, CEO evaluation and delegation of authority.

The first of these key board functions is strategy formulation. The board’s objective here is to ensure that the company’s strategy will lead to long-term creation of shareholder wealth or other stated major goals. However, the level of board involvement will vary from company to company. For instance, the board may see its role as developing strategic questions for management to answer, while another approach sees the board setting broad objectives for management to implement.

With a policy on strategy formulation developed, the next key area for the board to consider is the directors’ role in advising the CEO. As already noted, the board-CEO relationship is central to corporate governance. It provides the link between the direction of the company determined by the board, and the day-to-day implementation of that direction, which is the CEO’s responsibility. The board should be a key source of knowledge and experience for the organisation it governs. Therefore, it is important that the board shares its experience with management, especially the CEO, to serve the interests of the company.

The board also has an important function in accessing resources. All companies, whatever their size or the nature of their business, need access to outside resources if their businesses are to succeed. These resources vary enormously from company to company, but fall into two main categories, information (eg industry or competitor data) and physical resources (eg investors to support an IPO, an extended line of credit, or bank loans for expansion). Developing business networks and promoting the firm’s reputation are two other important ways that a board can add value to the company. By acting in an open, professional and ethical manner in their dealings with people outside the organisation, board members raise and enhance the firm’s profile.

Notwithstanding the overemphasis placed on it, monitoring is an important role of the board, and monitoring an organisation’s performance is widely recognised as necessary to ensure business goals are being met. Monitoring involves both the financial and non-financial key performance indicators of a company. Coupled with this is the added pressure on directors to ensure that they are monitoring their organisation’s compliance with the many laws and regulations, and risk management procedures, that impact on its operations. Compliance means that a company is acting legally and that its officers are performing their duties in the interests of the company as a whole. Risk management includes the identification of all significant risks faced by the company and ensuring that appropriate policies are in place to moderate the impact of these risks. Thus, risk management can be regarded as the twofold process of evaluating a company’s exposure to critical events, and treating, monitoring and communicating responses to those threats.

The final function that a board needs to consider is its duty in delegating authority. Under the Corporations Act, the board has sole power over company operations, but, given the complexity of the business environment, it is in practice impossible for
the board to be the company's single decision-making body. Instead, each board needs to determine an appropriate method and level of delegation of authority. Obviously, this will again vary according to context. But in all circumstances, the board needs to clearly articulate and document the delegations that it makes.

CONTINUING IMPROVEMENT
As well as being confident in the roles, functions and processes of the board, our experience is that directors need to be sure that their board adds value to the organisation that it governs. Accordingly, the fourth quadrant deals with the processes and procedures necessary for ensuring continuing improvement and corporate renewal. These are board evaluation and director protection, remuneration, development, selection and induction.

Good corporate governance requires that directors are free to discharge their duties without fear of litigation, since in recent years directors have come to feel increasingly vulnerable. A governance system that does not inform its members of their obligations (and then appropriately protect them from litigation), risks rendering board decision-making processes ineffective as directors concentrate more on personal exposure than corporate benefit. Given that directors are increasingly likely to face the threat of legal action, most companies put in place directors and officers insurance as a means of protecting their board members. Exposure to risk can be minimised if directors are aware of their legal obligations, document all board decisions thoroughly and conscientiously, and consult with experts, in particular legal advisors, to keep abreast of changes in the law.

We contend that a key way to improve a board is through critical evaluation. While the evaluation of board performance has become a subject of growing interest over the past decade, boards do not routinely undertake a formal evaluation process. For instance, Korn/Ferry found that only 47 per cent of Australian companies formally evaluated board performance on a regular basis, while a further 27 per cent of boards said they intended to introduce the process in the future.

The first step in the evaluation process is to set meaningful goals by which the performance of the board is to be measured. The board is thus continually working to ensure its adoption of best practice. In addition to assessing the board as a whole, appraising individual directors can add substantial value to the organisation. However, this should be seen as a tool with which to diagnose the needs for the development of individual directors, rather than as a 'report card'.

A commitment to development of directors is a commitment to the continuing improvement of an organisation. It is a process that adds value to the company by enhancing its intellectual capital and serves to build shareholder and other stakeholder confidence. Director development benefits individuals, boards and the companies for which they work. The power of the board as a competitive weapon depends on the quality and diversity of its directors.

Similarly, choosing the right board members is a major component of sustaining corporate renewal. To ensure best practice in corporate governance, it is recommended that formal policies on director selection emphasise the distinction between governance and management, state explicitly what is required of an effective director (including skills and attributes), and establish a process that ensures that these qualities form the basis of the selection process.

Upon appointing a director, it is vital that they be appropriately briefed about their new role. Survey evidence indicates that nine out of every ten directors have no preparation at all for their role on the board, and another two-thirds of directors indicate that they received no formal assistance after their appointment. It is therefore important for a board to establish a system of induction that familiarises the new director with both the duties of the position and the operations of the firm. This is also a good opportunity to encourage director development and introduce the idea of performance evaluation as part of board process.

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A further issue for the board to consider is director remuneration. This issue has been the subject of much
DEFINING GOVERNANCE ROLES
Has your board had a recent discussion on its role and the role of management?
Has your board reviewed its composition, skills requirements and skill gaps in the past year?
Are you and your fellow directors thoroughly familiar with the legal requirements required of directors under the Corporations Act?
Do you have a code of conduct for directors?
Has the board recently discussed the role and expectations for the chairman?
Is there a current position description for the company secretary?
Have you recently reviewed the detailed position description and delegated authorities of the CEO?
Does the CEO understand his/her role and that of the board?

IMPROVING BOARD PROCESSES
Have you recently reviewed what you expect from board meetings?
Is your agenda under constant review?
Is the number, level of detail, format, information, content and lead-time of board papers satisfactory?
Do the minutes provide the right amount of detail, especially in light of the new 'safe harbour' provisions of the Corporations Act?
Does your board have a calendar, which not only lists forthcoming board and committee meeting dates, but also the key events and specific tasks required of the board?
Do you have the right number and type of committees?
Is there a charter for each committee setting out its roles, composition and any decision-making powers?

KEY BOARD FUNCTIONS
Is the board's involvement in strategy appropriate?
Do directors provide appropriate advice and mentoring to management?
Do directors make appropriate use of their contacts and networks to further the goals of the company?
Are the financial and non-financial key performance indicators (KPIs) provided to the board appropriate?
Are the systems that provide the KPI data accurate and efficient?
Is an appropriate compliance system in place?
Is an appropriate risk management process in place?
Is there a formal CEO evaluation process in place, which at appropriate points involves the whole board?
Is there a formal delegations manual from the board to management, and at the different levels of management?

CONTINUING IMPROVEMENT
Do you have an appropriate level of directors and officers insurance?
Can directors obtain the information required for effective monitoring and decision-making?
Is there a regular board evaluation process in place?
Are the remuneration guidelines appropriate?
Is there a formal director development program in place?
Is there a sufficiently frequent rotation of directors, which ensures new blood regularly joins the board, while ensuring that board memory is retained?
Do you appoint the best new directors, given the skill gaps on the board?
public debate, especially where public companies have allowed directors’ salaries to increase while firm performance stagnates or even drops. Although the issue is a complex and sensitive one, director remuneration offers an important leverage factor that can stimulate good governance within the board. There is no single remuneration system which is best for directors, so companies should tailor their remuneration packages to suit their specific requirements.

CONCLUSION: GOVERNANCE OF THE FUTURE

Having read this brief overview of the issues that should be considered in a corporate governance charter, how does your board rate? You may wish to complete the corporate governance checklist shown in table 4. Alternatively, share the checklist with your fellow directors and then compare the answers. Establishing a Corporate Governance Charter often starts with just such a discussion, leading the board to identify gaps in your corporate governance practices and policies. These gaps can then be addressed over time by discussion and documentation of what is agreed. Of course, governance is a living process and so the entirety of board policies should be reviewed regularly.

ENDNOTES

3. There are two classes of directors: executive directors, who are employees (generally senior executives) of the company, and non-executive directors, who are from outside the company but bring other skills, expertise and experience to the organisation. They can also be classified as independent. An independent director is one who has not been a previous executive of the firm, is not a nominee of a major shareholder, is not involved in the value chain of the organisation (e.g. as customer or supplier) and is not an adviser to the corporation for fees.
4. For a discussion on the factors that can influence decision-making and lead to errors of judgment see: M Bazerman, 1994, Judgment in Managerial Decision Making, 3rd ed, Wiley, New York.
11. Toronto Stock Exchange Committee on Corporate Governance in Canada 1994, Where were the Directors?, Toronto Stock Exchange, Toronto.