ARTICLE

BOARDS THAT CREATE VALUE: CORPORATE GOVERNANCE FRAMEWORK®

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It has been painful to watch the likes of Lance Armstrong, Mike Tyson and Hansie Cronje sabotage their futures through poor decision-making. Similarly, many organisations and their boards have failed to demonstrate strong and responsible leadership qualities to motivate and drive their organisations to success. Awareness, decisiveness and accountability are some of the business leadership qualities required to achieve remarkable performances.

The 'buck' stops with the board of directors and it is the board of directors who are ultimately held accountable for the success of the organisation. However, with the business landscape changing at an accelerating rate, risk management and decisive decision-making are becoming more challenging and business failures more prominent. A recent Harvard Business Review reports the failure rate for mergers and acquisitions to be between 70% and 90%. According to the United States Small Business Administration, only 44% of new businesses are still in existence after four years. Against this backdrop, how does a board create a sustainable organisation in what are clearly turbulent times?

The board is expected to ensure that there is a common understanding of the governance structures within the organisation and that relevant and appropriate information is available to facilitate risk management and decision-making across the organisation. In order to meet these expectations, the board will need to build and implement a *Corporate Governance Framework®* which clearly identifies those matters for which the board will be held accountable, and those matters for which management will be held responsible. (It is important to understand that in terms of ethics and governance, accountability means being answerable or liable for your actions, whereas, responsibility means being in charge of or being the owner of a task.) The *Corporate Governance Framework®* will provide a singular schematic status of the governance of the organisation at any one given point in time, furthermore indicating areas within the organisation's framework that requires the board's attention. Through the use of this framework, the board and management will be better positioned to understand the different components of governance which are important to the organisation.

"Governance and leadership are the yin and yang of successful organisations. If you have leadership without governance you risk tyranny, fraud and personal fiefdoms. If you have governance without leadership you risk atrophy, bureaucracy and indifference."

Mark Goyder (Director of Tomorrow's Company)

The one-size-fits-all approach to governance does not create value and simply adds to bureaucracy within the organisation. The board must establish a process to identify those governance components which are relevant to its own environment and legislative boundaries. Consideration must also be given to the complexity of the organisation as well as its geographic and subsidiary sub-structures before finalising the governance components to be included in the organisation's own *Corporate Governance Framework®*. It is worth spending some time on these decisions as the risk of business failure is increased when there is uncertainty as to which areas of the business are important and need to be regularly monitored. Examples can include matters such as strategy, business structure and key organisational policies for which the board is held *accountable*, which in turn are differentiated from matters such as internal controls, business processes and group wellness and skills for which management is *responsible*.

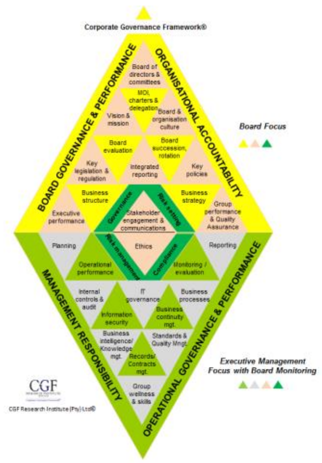
Once these critical governance components have been identified, they need to be routinely reviewed to confirm their status from a risk management point of view. A simple 'RAG' (red, amber and green) methodology will initially suffice and will give the board some comfort as to which areas of the organisation are being well managed and therefore have a low level of risk associated with them. Likewise, these reviews must be designed to highlight those areas of high risk requiring urgent attention. The board will then be in a position to take the necessary action to address these risks timeously and reflect the changes in risk status in the *Corporate Governance Framework®*.

Ideally, these reviews should be independently performed and form part of the organisation's third line of defence in its combined assurance model. An independent review will provide the board with a greater level of assurance that each governance component has been objectively audited and its status objectively reported. The audited results as reflected in the *Corporate Governance Framework*® should be included in the organisation's Integrated Report (specifically intended for public disclosure and consumption) so that that all stakeholders can get a holistic view on just how well the board is actually managing the organisation's risk.

The responsibility for maintaining the integrity of the framework should preferably be delegated to one person, normally the Company Secretary. This person is responsible for collating the information, updating the framework and reporting the outcomes to the board and/or its risk committee. The board may, except to the extent that its Memorandum of Incorporation (MOI) provides otherwise, invite persons who are not directors to the board meeting to provide further explanation on matters pertaining to the *Corporate Governance Framework*® in order to ensure that the governance components are being appropriately managed.

A strong board comprises different personalities with a range of different disciplines and perspectives. The *Corporate Governance Framework*® enables the Chairman of the board to positively harness and channel the power of such diversity to create value for the organisation by adopting a disciplined approach to performance management (at a strategic and operational level) and proactively attending to critical risk management areas. Indeed, the framework helps to eliminate a ''silo mentality" and enables greater cohesion between the board and key management by providing terms of reference, assigning responsibilities and ensuring the flow of information between all parties.

Access to up-to-date, independently reviewed governance information such as that included in the *Corporate Governance Framework*®, is critical for incoming non-executive directors as it provides them with information to make a quick high level assessment of the overall sustainability of the organisation including its level of compliance with relevant legislation. Such information is vital to candidates when deciding whether or not to assume the potential liabilities associated with a non-executive directorship appointment. If too many critical components of the *Corporate Governance Framework* ® are marked as red (in terms of the 'RAG' methodology), the non-executive candidate is more vulnerable to incurring personal liability for a breach of his fiduciary duties. Similarly, the Chairman should also use the framework as an induction tool when appointing and orientating new non-executive directors and Company Secretaries in order to put them in a position to more quickly deliver value to the organisation.



Developing a *Corporate Governance Framework*® requires a thorough understanding of the organisation's strategic objectives, operations, internal and external environments. It is a continuous process which matures as the business is nurtured – a journey which evolves as lessons are learnt and new paths are travelled. It is a process which empowers the board to create value for all its stakeholders.

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