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The groundbreaking Policy Governance® Model

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Background

Policy Governance® was coined by Dr John Carver from the "heavily value-laden content" of three categories of board decisions, i.e. ends policies, executive limitations policies and governance policies. Such board policies tend to be few, brief and seamless. It is through this ownership mandated processes, coupled with the great craftsmanship of the board as a whole, directed towards value-driven policy statements that led Sir Adrian Cadbury to say "beliefs and values, rather than...structure and systems...which holds a company together" about the Policy Governance® model.

As with some of us now, following great disenchantment with the state of affairs of boards and corporate governance in general a few decades ago, Dr John Carver highlighted what Keith Louden and JM Juran, amongst others, had noted in their 1966 classic, *"The Corporate Director"* that: "It is an astonishing fact that the job of the board of directors is, in proportion to its intrinsic importance, one of the least studied in the entire spectrum of industrial activities."

This observation, more than 35 years later, is still apt and appropriate in spite of the fact that governance has assumed greater importance, prominence and impact in our daily lives. This is despite the fact that rules, laws and regulations governing all types of organisations have been in place for hundreds of years.

The case for a model

As the result of developments in the financial and capital markets of the past few decades, regulators, shareholders and other interested parties continue to respond to the lack of corporate governance through rounds after rounds of reforms, in the form of best practices, codes, laws and rules. Notable examples include the early "Cadbury Report" of the UK, the "Dey Report" of Canada, the "King Report" of South Africa and Singapore's very own Code of Corporate Governance which came into effect from 1 January 2003.

Recent responses to the reform proposals by the Securities Exchange Commission ("SEC") and the New York Stock Exchange ("NYSE") in the USA, the Higgs Review in the UK, the Australian Stock Exchange ("ASX") (as the result of the HIH/One-Tel scandals) in Australia, as well as the Hong Kong Stock Exchange ("HKSE") in Hong Kong have been very mixed. Post implementation survey results indicate that boards of listed organisations, except for the very few, tend to focus at complying to form rather than substance, as evidenced from the latest Credit Lyonnaise Securities Asia survey report. There is also a misconceived tendency to view governance as applicable to only listed organisations. Even amongst listed organisations, the view is that governance is all about conformance and

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compliance with the issues brought about by regulators, shareholders/stakeholders. This mind set is far from the truth. Governance is as applicable to non-profit and public organisations as it is about organisational performances.

It is without argument that best practices and codes do make a contribution and advancement to corporate governance in listed organisations. However, the contributions they make are not sufficiently rapid and fundamental so as to be long lasting in order to achieve enough of an impact, or to embrace all types of organisations. I am in agreement with Dr John Carver who is "not against those things (best practices), ...just not satisfied with their utility for building a solid foundation for general governance development or even for a given board's adaptation to its own peculiar circumstances.

It was under such a backdrop of a lack of study and understanding of the subject of governance, the resultant confusion over what governance is all about and what a board is really for, that Dr John Carver began to create the theory or model of governance, Policy Governance® in the 70's.

How the model was developed

Sir Adrian Cadbury, in his forward to "*John Carver on Board Leadership*", said:

"What has been missing is an agreement on what boards are for, whom they should be serving and what distinguishes governance from management."

Unlike a layman's definition of a model, Dr John Carver's version is far more demanding in the definition of the word "model". He defines it as something that "has to come down to earth in concrete applications to real life situations. But the more sound the theory, the greater is its capacity for such real life particularisation. And sound theory must run much deeper than mere structural ideas and arrangements of practices. There is nothing as practical as a good theory, as Kurt Lewin said, but to be so requires a measure of elegance in the theory."

A governance model is "a set of principles and concepts, carefully derived from postulates, forming a consistent whole, that can provide a framework for any board to think about its job design, its processes, its relationships and its accountability." The flipside of this is that the specifics of the traditional mode of governance are being decided "by experience and wisdom, personalities, power struggles and simple traditions." The model approach will challenge conventional wisdom and bring with it discomfort inherent in any paradigm shift.

On the basis of the above, Dr John Carver began to ask the critical questions as to what a credible board would expect from a model. Amongst others, he felt that the

model "must be generic, applicable across all or most organisations, be logical, facilitate and encourage real proactive board leadership rather than rubber stamping or ritual roles and provide a rational basis for answering to the specific issues of everyday governance."

The Model

The Policy Governance® model visualises governance as an extension of ownership "downward" rather than an extension of management "upward", hence it has to be viewed as a function of ownership crafted to interface with management and "neither its duplicate nor its servant." The board, being placed atop the corporate structure, has the authority (save the law and shareholders) to make decisions about everything.

The Policy Governance® model "addresses the manner in which the board chooses what decisions it will make and the manner in which it will make them and answers the cardinal question — "What should the board control and in what manner should the board control it."

The Policy Governance® model answers the above question by the use of several principles, the most important of which are:

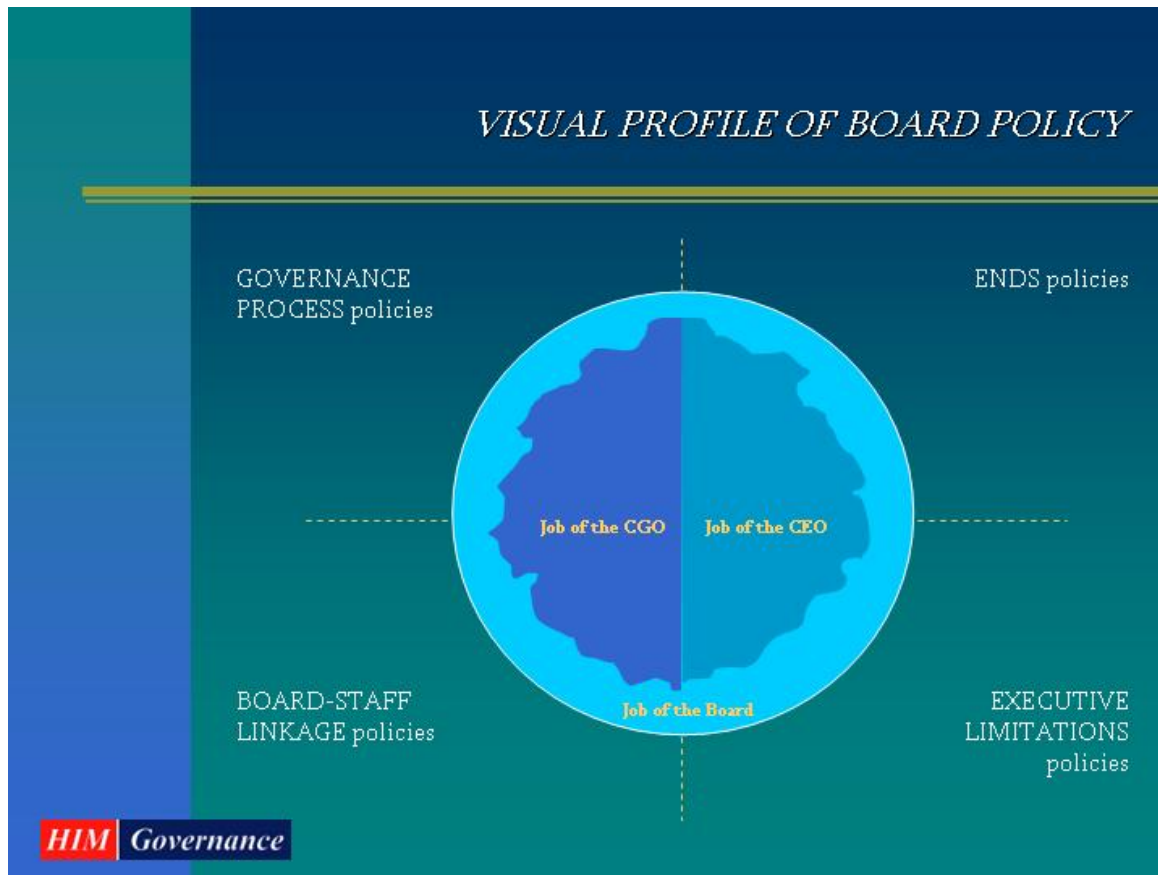
- the differential treatment of *ends* and *means*; and
- the ordered arrangement of decisions from their broadest iteration (most general) to their narrowest (most specific)."

The simplicity of the model can be exemplified by the definition of the "purpose" of the board which is to "ensure, on behalf of the *owners*, it *achieves* what it *should*, and



avoid that which is *unacceptable*". Such simplicity can also be viewed in its definition of "job" of the board which is to "[s]et expectations, assign expectations and check

expectations are met." A visual profile of board policy under Policy Governance® is displayed here:



To develop a competency in the model requires one to either read/self-study through the series of books ranging from the theoretical entry-level to the more practical step-by-step types or through the series of public seminar/workshops organised by Dr John Carver or other well-trained consultants. Dr John Carver has one cardinal belief about the efficacy of his model implementation and that is "A full conceptually coherent model is like a sophisticated navigation instrument. It will not fulfil its promise if only partially used."

Conclusion

This article can only serve as an introductory presentation of the broad outline for the reader's consideration. A fuller discourse will provide an opportunity to examine how the broadest statements created by boards can be seen as an expression of values far more than the board decisions we are accustomed to seeing.

Event:
The Failure of Corporate Governance and How to Fix it

Date:
14 August 2003, 9am-5pm

Venue:
**Prince Hotel & Residence
 Kuala Lumpur, Malaysia**

**Call 603-20266003
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