

The Real Challenges of Good Corporate Governance

I have often been baffled by the inability of directors and boards to get governance right at corporate, non-profit and public levels. Considering the fact that corporate governance was initiated through the requirement of the Audit Committee in the Listing Manual in 1989, leading to the latest Code of Corporate Governance (with effect from 1 January 2003), it is no wonder that there is a tendency to view corporate governance as typically 'a regulatory requirement to be complied with to protect shareholders and certain stakeholders' following major scandals such as 'Pan-El' and the 'Asian financial crisis'.

The Chairman and Chief Executive Officer of a main board listed company declared at a recent seminar that 'corporate governance is not applicable to Small and Medium Enterprises (SMEs)'. Likewise, I am often reminded that most SMEs do not consider corporate governance as applicable to them. Anecdotal evidence, speaking to entrepreneurs and businessmen, similarly throw out the misconception that corporate governance 'does not put money in the pocket'. Without doubt, these are untrue.

Good corporate governance implementation faces major challenges. I was therefore pleasantly surprised when, at the inaugural International Policy Governance Association (IPGA) conference held at Chicago in June this year, Dr John Carver, creator of the Policy Governance® model took the opportunity to address these challenges, including:

- 1) The glaring omission of the concept of owner-accountability in conventional wisdom, and
- 2) The inability to transcend ourselves.

Put simply, the twin challenges of good governance lie in "understanding what governance is really about" and "the commitment of individual directors and the board as a whole to implement what it takes to produce good governance voluntarily".

Current legislative and regulatory initiatives, including codes and best practices, are useful in pushing targeted entities in the right direction but not enough. Regulated entities have a tendency to view requirements as a chore which they hope to comply by adopting the minimum form rather than the substance. Unless duly implemented or appropriate enforcement measures are taken, regulated and listed entities can generally get away with the 'minimalist approach' to corporate governance which is not what is intended.

Concept of Owner-Accountability

Much has been said about the unique role of the board in linking owners of an organisation to management. This is the theoretical aspect. In practice, however, it is quite different. Mostly, boards do not take owners' interest sufficiently and seriously enough as 'shareholder relations' are largely undertaken by management rather than the board.

Under this concept, boards as an owner-representative, speaks for owners in saying what the organisation is for e.g. 'to achieve annual increases in economic value added of 15% through being a global integrated defence and engineering group'. In doing so, the board also takes into account, for prudence and ethics, the interests of other stakeholders.

In practice, determination of organisational ends appear to be derived largely from the CEO, management and certain majority shareholders rather than the board determining organisational ends from owners. The tendency of boards to 'rubber-stamp' away strategic and other long-term plans from management has to be avoided.

The Chief Executive Officer (CEO) takes over from hereon to execute the board's informed determinations and demands. CEO and management performance are monitored and judged by the board on this basis and will take appropriate action in

response. What must be understood is that 'the board is accountable to the owners that management produces what the board has adjudged to be in the owner's interest'. This appears simple enough to understand but in my own observation it is still not well understood as a concept by the way governance is being practiced.

Owner-accountability is a simple concept which I presume we are all very comfortable with. As Dr Carver puts it, 'if an object has an owner, we are generally comfortable with that owner deciding the use to which his or her property is put. Policy Governance® posits an ownership for organisations.' As elaborated above, the board speaks for owners with fidelity and in their trust as to what the organisation is for and accounts to them in this regard. The board is accountable for everything there is over in the organisation. This arduous combination of accounting to and accounting for gives rise to Robert Greenleaf's famous concept of "Servant-Leader" which we subscribe to.

Transcending ourselves

In the past many years, through the course of sitting on boards, participating at various forums on corporate governance and talking to individuals, I came across a number of highly qualified and capable individuals who, for all intents and purposes, can make a big difference to their boards. Sadly, as the saying goes, they are very reluctant to 'rock the boat' or preferred to 'let sleeping dogs lie'. Chait, Holland and Taylor noted that boards are 'often little more than high-powered, well-intended people engaged in low-level activities'.

No matter how qualified we are to perform a certain task, it is the mentality towards it that poses a big challenge. We have excellent examples of people capable of transcending themselves such as 'piloting an aircraft, doing a brain surgery or writing a symphony'. Much efforts have been put in by various stakeholders and interested parties such as regulators, stock exchanges, national institute of directors/governance, professional bodies, trade associations, etc to improve corporate governance, sadly, to no significant effect.

Governance, 'being a method of human interaction', is a social science that suffers the expected fuzziness and interpersonal foibles of social matters. Transcending, when applied to governance, is so personal that it really is more about transcending ourselves than transcending in some mechanical or scientific way'.... Until, and unless, we are able to transcend ourselves to overcome the natural impediments, transforming governance will remain a formidable challenge to board members.

(Reference: Carver, John, "Transcending Ourselves: The Board's Unique Contribution to Success", keynote address to IPGA Conference on 11 June 2004 in Chicago).

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