A leadership perspective

Pierre Casse and **Arnold Walravens** take a fresh and candid look at corporate governance

"If management is about running the business, governance is about seeing that it is run properly." R. Tricker

For many leaders in both public and private sectors, the issue of governance is unclear. Indeed, many leaders in the field consider governance as something for academic discussion rather than something that is relevant to day-to-day operations. When questioned about it, the response is often along the following lines: "Yes of course governance must be considered, but the priority is to take care of business."

The truth of the matter is that although many people in business talk about governance, they rarely understand what it means or appreciate its implications for their own accountability. In this sense, governance is always someone else's responsibility. However, leaders at every level realise intuitively that governance is an issue that, if ignored, can prove highly problematic.

Governance is a rather complex issue and there are many different models of governance in use around the world that have evolved over time. Unfortunately this does little to help leaders decide on what is most appropriate for their organisations. Relativism in this sense merely opens the door to many different interpretations as to how governance should be practiced. Nevertheless, governance provides a legitimate approach to managing the distribution and use of power in any organisation. In other words, it is a necessary mechanism for ensuring the sound working of a social system, i.e. an organisation. However, the following considerations must be kept in mind:

- Its application and functioning can sometimes create problems which can prove complex
- Executives must invest time and energy to make it work to the satisfaction of the corporate key players
- Human nature being what it is, supervision is an ethical necessity.

The three key dimensions of governance

"The pure and simple truth is rarely pure and never simple." O. Wilde

Leaders must realise that governance has the following three major aspects: ethical drive, organisational effectiveness and power distribution. Here is what leaders must know about governance as a minimum of awareness:

Ethical drive

Governance is about people and the impact that an organisation can have on all its stakeholders. Power is an essential component in any organisation as it moves towards its objectives, but power can be misused and prove highly destructive. For this reason, those who have the power must be held accountable. Governance provides a framework of guarantees to ensure that power is yielded for the benefit and best interests of the wider community, rather than only for the →

Governance is about people and the impact that an organisation can have on all its stakeholders selfish interests of those who yield it.

The development of existing governance systems in use derive from, and are influenced by, a range of factors such as the history of the society within which the organisation operates; the nature of the political system of the country in which it's located; the need to accommodate the expectations and rights of the different interest groups involved, and the pressure from the stock market and the wider economic environment.

In short, many governance systems are hybrid and complex. The rationale behind them can be esoteric to say the least. Many leaders have difficulties comprehending the logic and the coherence behind the corporate governance system they must respect.

Organisational effectiveness

No organisation can be effective and successful without the proper structure and distribution of responsibility. The various roles within the organisation and the duties associated with each role must be distributed appropriately amongst everyone involved in the venture. So the proper governance framework is one which will facilitate the effective functioning of the organisation in the pursuit of its aims and objectives.

Power distribution

As we have highlighted, governance is about the allocation and use of power. Without an effective governance framework, the fundamental risks which result from the abuse of power stand unmitigated. Therefore, governance could be defined as the process by which power is distributed, used and controlled for the benefit of the wider community.

The failure of governance

If governance is about making sure that organisations are run effectively and ethically, then we must admit that, hitherto, it has failed us in many ways. Too many inappropriate behaviours and misuses of power are indicative of the failure of public and private governance in all societies. If the ethical drive and the interest of all stakeholders are not the source of decision-making, then the governance framework is fake and manipulative. There are a number of important reasons why governance frameworks have not delivered what is expected:

Most people are driven, to a certain degree, by self-centred motivations and leaders are no different in this respect

The very nature of human beings

The power game is an inevitable consequence when people engage in collaborative activity. As people come together in any organised activity, three rules apply:

1. It does not take much time in any organisation, or society for that matter, for some people to accumulate more power than others. The more power one has, the better.
2. Whatever the intentions of those who have more power – and they can be socially and culturally acceptable – they will slowly but surely start to serve particular interests instead of focusing on the good of the majority. The very nature of power is a corrupting influence.
3. Sooner or later, some people or groups of people will challenge those who have the power and try to relieve them of it.

These 'natural' laws do not help in the establishment and use of a fair governance framework. The lessons from history show clearly that the accepted governance framework is usually designed and managed to serve the interests of a select few. This last observation leads to a set of critical questions related to governance. Who should get the power so that the multiple interests represented within the organisation will be properly served? How should the supervision system be organised and applied so that the abuse of power is controlled and minimised? What kind of fair and just incentive systems should be designed and implemented so that the organisation can fulfil its role, i.e. provide jobs, create, sell and distribute goods and services that can improve the quality of people's lives and provide a reasonable return to investors?

The structural challenge

The way organisations and societies are structured and managed is also a major hurdle in the practice of sound governance. A number of barriers are evident, including the power structure that entices people to corruption (abuse of power); the conflict of interest exemplified in many organisations by the dual role of CEO and chairman of the board, and also the pressure and incentives on executives within some organisations to bypass some of the

basic rules of conducting business properly.

In others words, the way we organise ourselves to survive, enjoy and grow is not conducive to healthy governance practices. However, some mitigations have been adopted by many institutions in an attempt to avoid the structural trap:

1. The chairman of the board is a non-executive member
2. Many supervisory boards have independent directors
3. Most audit committees, including that on remuneration and promotion, are chaired by non-executives leaders
4. A clear-cut mission of the board and its code of conduct are established and publicised across the organisation
5. Non-executive members are changed regularly
6. Members of the board have the right to access any parts of the organisation at any time to check on its operations
7. An internal audit committee very often works in parallel with an external audit body.

The leadership shortcoming

Many leaders do not pay enough attention to the importance of having an effective governance framework. However, it's not so surprising when you consider the pressures with which leaders must deal on a daily basis. For instance, the constant pressure from the market to continually improve profitable growth. Furthermore, most people are driven, at least to a certain degree, by self-centred motivations and many leaders are no different in this respect. Hence it is often difficult for them to resist the temptation to interpret governance without bias. Indeed, many leaders are constantly faced with a range of complexities. For instance:

- The situations in which they find themselves are fraught with paradox and ambiguity. For example, they are compelled to deliver exceptional results but do so with ever more constraints
- The rules, regulations and legal standards are often unclear and even if they adhere to such standards they still may be judged to be behaving improperly
- There are cultural differences that do not simplify the application of governance across

countries. What's considered right and proper in one culture may be considered unacceptable in another culture.

Furthermore, many executives have been promoted to the very top of their organisations, not because they were very respectful of the governance imperatives, but rather because they were able to get very good results. Many of them have not been educated and trained to be champions of governance best practice.

In our experience working in various industries and corporations, many supervisory boards or boards of directors do not function properly for a number of specific reasons. In particular:

Too much emphasis on finance

We realise that numbers are very important in any business, especially in times of crisis. However the time and energy spent on the financial data at board level is too much and not so effective. Finance is critical but not the only key success factor in business.

Restricted expertise

Many board members do not have the professional and business experience that is required to really contribute to the proper supervision of the organisation. They are either superficial at best, or counter-productive. In some instances this results in a focus on the wrong issues and challenges and the loss of credibility.

We have also witnessed supervisory boards composed of people who are not in touch with the current challenges and so their views and opinions as to what must be done are obsolete. Moreover, many supervisory boards do not have the leadership expertise required to assess the standards in management of a company. Indeed, all too often, independent board members are appointed purely on the basis of either their relationship with stakeholders or because they have a high profile within society.

The detail orientation

As a general observation, supervisory boards give far too much attention to issues of relatively minor importance rather than focusing on issues that are a strategic priority. Each board should have a clear perception of its role and of its expected contributions. Corporate managers are leading the organisation. Supervisory boards are supposed to ensure that the organisation remains ethical, uses the proper strategies so that all the stakeholders' interests are protected and finally that the organisation is functioning properly with the right people in the right positions.

Conclusions

In today's complex economic environment, corporate governance is a progressive step forward in ensuring the protection of all key stakeholders in the business. It is a framework for guaranteeing sound and ethical behaviours through the establishment and monitoring of clearly defined codes of conduct. However, in practice, the gap between the governance principles and their application can prove astoundingly wide. Nevertheless, experience and research have shown that corporate governance frameworks can prove effective, provided leaders recognise the benefits and the importance of the various key factors we have outlined in this article.

What we have witnessed is that governance, despite its wide variations across time and space, can fulfil its role, provided the selected partners are dedicated to their mission, professional in their behaviours and courageous enough to highlight the practices which they consider to fall below acceptable standards despite the potential backlash from those whose self-interests may be adversely affected. TJ

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