The Management of Management

Ireland and the world are littered with examples of catastrophic and hugely damaging failures in corporate governance. Every decade brings up a new batch of even more spectacular breakdowns in governance, where those charged with the stewardship and oversight of their organisations, seem to have been out of their depth, asleep at the wheel or even worse having their hands in the till.

The failures are not confined to any one sector. We in Ireland are painfully aware of costly failures in the banking sector that has brought the country to brink of economic collapse and has done untold damage to our national reputation. The State sector has also had its share of examples of weak and ineffective corporate governance that have left society picking up the tab while those entrusted with responsibility which they inadequately or incompetently exercised, appear to have gotten off relatively scot-free. The non-profit sector also has had its corporate governance failures, where controls systems have broken down or have turned out to be illusory.

None of us are immune to the harmful damage that a major failure in corporate governance would have for our organisations and our sector. We cannot afford to pay lip service to the need to have robust and monitored governance systems in place. It is not acceptable to opt out and leave it to others to worry about the need to adhere to good practice.

The management of management and the development and adherence to good governance principles is a collective responsibility of the Board, the CEO and the Management team. Other stakeholders such as funders and regulators have a certain role and responsibility, but ultimately, and ethically, the prime responsibility rests with the organisation itself.

Corporate governance is about the methods and processes we put in place to provide for the proper guidance and oversight of management. The systems that set out what we want the management of the organisation to do, the rules or policies they need to adhere to and how they need to account for the deployment and use of the organisation's resources. It is about how the organisation is directed and controlled. How decisions are made and how the organisation reports on the impact of those decisions. It is critical to the effectiveness of the organisation and those involved in it. It has to be at the heart of the organisation, constantly reviewed, evaluated and improved.

It is important to remember that corporate governance is not the exclusive domain of the Board or the CEO. There are in fact three interlocking components in the governance framework – the Board, the CEO and the Management Team with each component having its own particular responsibilities. However, effective corporate governance is a collective responsibility that needs all three components or tiers to be properly aligned.

The Board is about providing the leadership and setting the direction for the organisation. They have a responsibility to the mission or purpose of the organisation and for ensuring that it has the appropriate strategies and resources to deliver on that purpose. But the other side of the Board's governance responsibility, is the control side. This is about ensuring that there is proper accountability for the implementation of the Board's policies and use of the organisation's resources. It is all about reviewing, monitoring, evaluating, getting the right information and putting effective reporting systems in place to enable the Board fulfil its oversight and control function.

The CEO is responsible for the day to day running of the organisation. He/she has the primary responsibility for ensuring that the organisation delivers on its mission, that appropriate strategies and resources are deployed and that the Board receives the "right information" and supports to enable it fulfil its governance responsibilities.

The Management team's responsibility is to manage those resources, implement the agreed actions in the strategic and annual plans, adhere to the policies, identify, assess and manage risks and review performance.

Those who are in the different components of the framework need to be aware of and act on their respective governance responsibilities. But they also need to be aware of and appreciate the role and duties of those in the other components. A weak link in any of these three components can have serious and negative consequences for the good governance of the organisation. Responsibilities are abdicated. Resources are wasted. Power is abused. Trust is eroded.

Clarity is critical to any effective corporate governance framework.

- People need to know and understand where they stand.
- What the systems are?
- How they work.
- What their individual and collective responsibilities are and how they need to account for their actions.

That onus of accountability applies to all three components. Unfortunately, in some organisations, the systems of accountability are weak and paper thin.

- How many boards in our sector actually do a robust annual evaluation of their individual and collective performance as a board and on the value they have contributed to the organisation?
- How rigorous is the Chairperson's review of the CEO's performance?
- How many organisations have set clear and measureable goals for the CEO and management team to achieve and have the systems in place to evaluate their performance?
- How often do we lazily assume that the appropriate policy or control mechanism is in place without ever actually verifying that it is until something goes wrong? Organisations need to spend the time in developing, monitoring and updating their organisation's rule book – its corporate governance polices.

The CEO needs to know:

- What his/her delegated authorities are?
- What decision making powers they have?
- What needs to be referred to the board?
- What they need to report to the board on?
- What their performance goals are and how their performance is to be evaluated?

In devising the "rule book" for the governance of the organisation, it is important, but admittedly difficult, to get the balance of control right. Overly tight controls will stifle initiative and a lead to a complete avoidance of risks. Lax controls and poorly defined policies can result in inappropriate and possibly damaging actions being taken that negatively affect the financial and/or reputational well-being of the organisation. Getting the balance right will always be a cause of tension. But it is something that needs to be regularly reviewed and debated as the organisation goes through different cycles and changes of environment.

It is in everyone's interest to ensure that there are robust and effective governance practices in place and that these are regularly reviewed. A single event of poor corporate governance can severely damage a reputation that has taken years to build. Your personal reputation as a manager or as a board member can be at stake as a result of a corporate governance failure in your organisation. Ineffective corporate governance can not only destroy personal and organisational reputations but they also can seriously damage a sector's or even a country's good name and reputation.

Often these failures can be fatal for the organisation. Others have used the crisis as an opportunity to renew and rebuild the organisation with best practice governance systems and structures. But we all also know of examples where the organisation's culture remained unchanged and the publicised new approach to good governance was only a veneer and nothing of substance really changed. All appears rosy until the next breakdown in governance occurs.

One of the biggest threats to good governance is having an overpowering and seemingly untouchable CEO or Chairperson who totally dominates and controls the organisation. Without an effective counterbalance to these powerful individuals, the systems of governance controls can be made redundant. The Board needs to have the strength of character to stand up to those overbearing and controlling chairpersons or CEOs.

Openness, accountability and transparency were over used buzz words from a number of years back. Their value and importance may have diminished somewhat in the eyes of many because in so many areas of Irish society there has been very little openness, accountability and transparency. But it is their absence and the consequential governance failures that re-enforces the need for these principles to be at the heart of good governance systems.

Implementing good practice codes such as the Charities Governance Code or the Governance Code for Sports organisations can be a very useful and helpful tool for putting these issues on the table on an objective basis. It provides the opportunity to air thorny subjects such as:

- fixed terms for the board Chair and members of the board,
- the respective roles and duties of the board, CEO and management and,
- the need for appropriate control and reporting mechanisms to be in place.

But if there is insufficient backbone and conviction to grasp the nettle of overbearing individuals, then nothing of substance will happen. You need to regularly think about and review the effectiveness of the governance system that you currently have in place in your organisation. For example:

- Has your board its own set of goals and objectives?
- How effective is the board’s committee structure and work plans?
- What control information does the board receive on a regular basis and how do they evaluate it?

All of these governance elements need to be robust and interact with each other. An excellent starting point for those organisations that have not reviewed their governance systems for some time, is to begin the process of adopting and complying with the Governance Code relevant to their sector.

Good governance is a continuing journey where you constantly aim to apply good practice principles and check regularly on how you are doing. It is not a tick box exercise or about producing big binders of policies and controls that nobody pays attention to. It is about leadership, ethics, culture, compliance, accountability, transparency, effectiveness, honesty and fairness. It is about seeking to do the right thing at all times.