Management governance

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Management Governance

1. What is ‘management governance’?
2. Why is it important?
3. What does good management governance look like?
4. How do I go about improving it?

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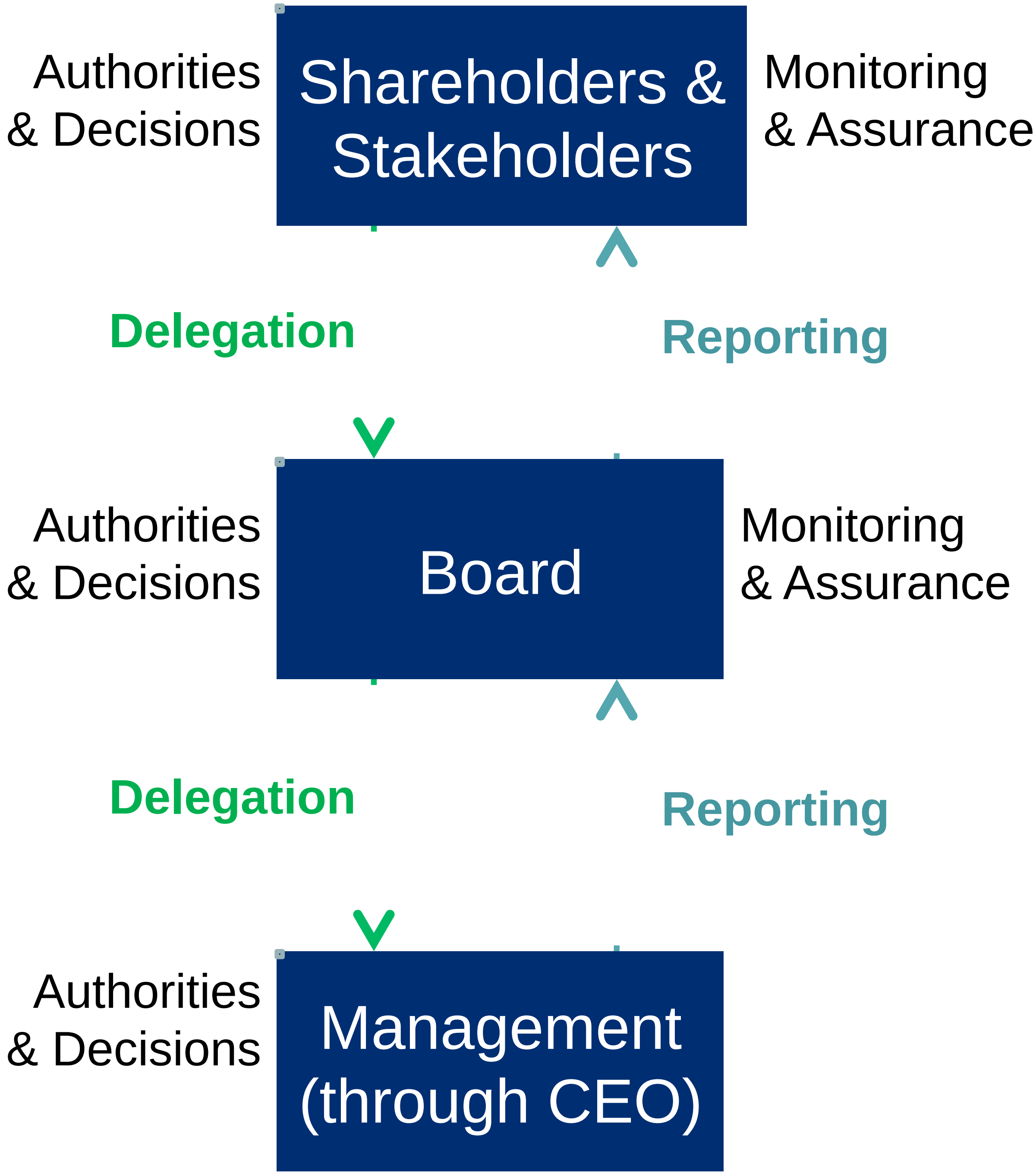
Authorities
& Decisions
Shareholders &
Stakeholders
Monitoring
& Assurance
Delegation
Reporting
Authorities
& Decisions
Board
Monitoring
& Assurance
Delegation
Reporting
Authorities
& Decisions
Management
(through CEO)

What is 'Management Governance'?

Corporate governance is "the framework of rules, relationships, systems and processes within and by which ***authority*** is ***exercised*** and ***controlled*** in corporations".*

Management Governance *is thus*:
How **authority** ***below the Board*** is:

a)exercised
b)controlled

*ASX Corporate Governance Council Principles and Recommendations, 2nd Edition 2010, page 3, quoting from Justice Owen in the HIH Royal Commission Report, 2003

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What is ‘Management Governance’?

Four key elements:

1. **Objectives & incentives (Mission, Strategic Plan, Budget, KPIs, pay incentives) – Ends/ WHY**
2. **Decision-rights (Delegated authorities, discretions) – Means/HOW**
3. **Boundaries on decision-making (policies, procedures, processes, systems, controls) – Means/HOW**
4. **Assurance mechanisms (audits, reporting and monitoring, sign offs) – Means/HOW**

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Board - Management Interface

2. Decision rights

1. Objectives & incentives

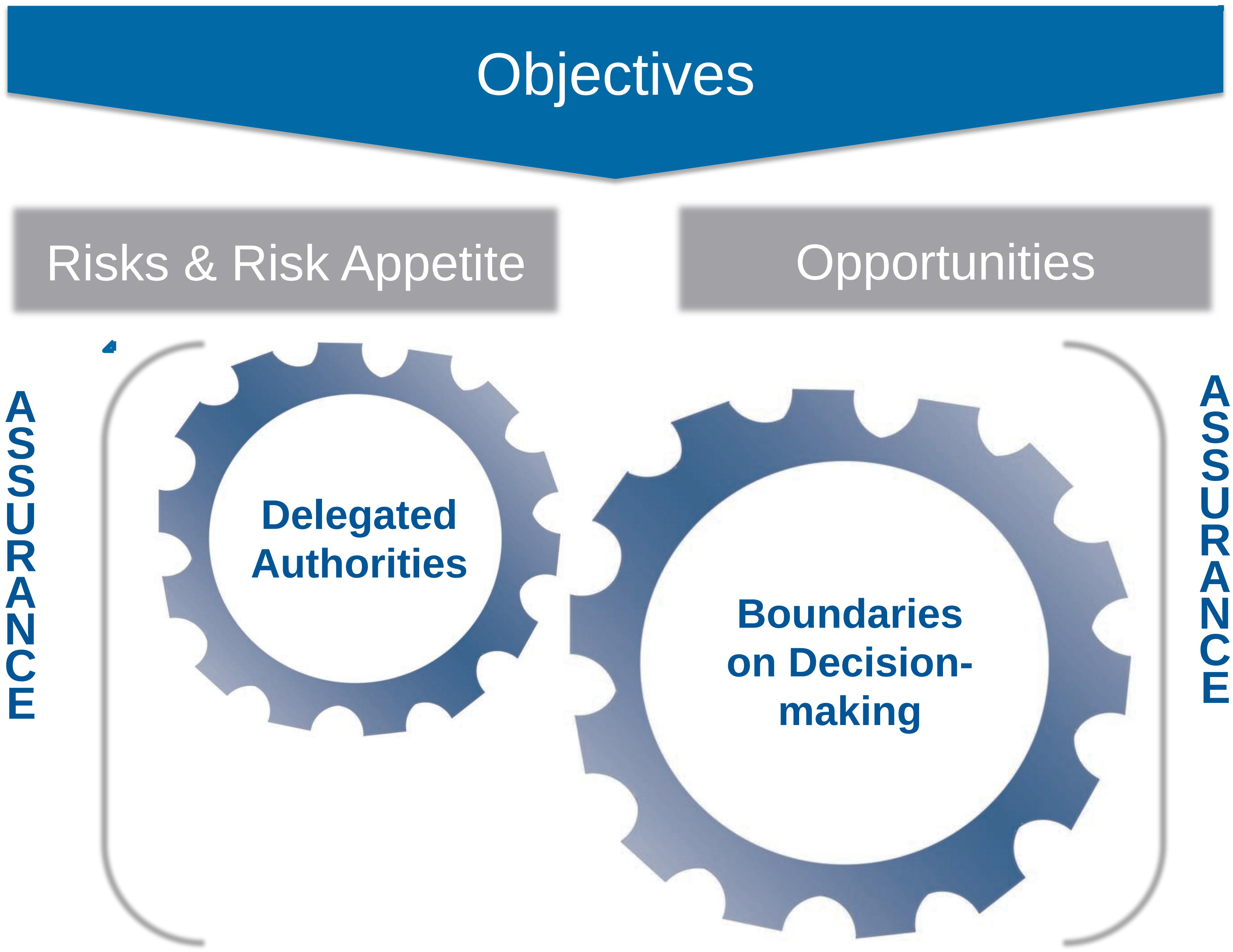
4. Assurance mechanisms

3. Boundaries on decisions

Source: Bob Tricker - Corporate Governance - practices, procedures and powers in British companies and their boards of directors,1984

What is the Board's role?

- **Ensure framework adequate & working properly**
- Set mission, macro objectives & incentives
- Delegate authority to CEO
- Form top down view of risks and opportunities
- Use that to prescribe high level boundaries on conduct
- Ensure objectives, authorities & policies implemented & resourced properly
- Approve key controls (eg code of conduct)
- Establish assurance mechanisms
- Monitor performance and conformance


Objectives
Risks & Risk Appetite
Opportunities
ASSURANCE
Delegated Authorities
Boundaries on Decision-making
ASSURANCE

Why is it Important?

Imagine an organisation where <u>everybody:</u>

a. knows their objectives and pursues them,

b. understands what they can and can't do and when to consult with others

Reduce Risk

<u>Improve Performance</u>

Protect Organisation

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What's Good? What's not?

Many organisations:

- Objectives & incentives in reasonable shape
- Delegated authorities unclear, poorly understood, not linked to policies, often inaccessible
- Policies ad hoc, confusing, not well governed, too much or too little. Critical core processes well embedded but no top-down view of risk or opportunity.
- Assurance mechanisms reasonable - but hard to test conformance

So What?

- People not Empowered or Accountable, Uncertain
- Inefficient - slow decisions, inertia
- Committees not adding value
- Reputation risk for company, directors & officers
- Higher operational risk: bad decisions, lack of accountability
- Hard to gain assurance system is adequate and working properly - directors and officers exposed
- Difficult to audit – conformance to what?

How to go about it?

- Confirm Board – CEO “handshake”
- Understand current state – evidence of what’s working well & what’s not and the impacts
- Build case for change – outcomes, benefits, costs
- Engage key executives & Board
- Map risks to controls – are they appropriate?
- Fix easiest or riskiest things first – often delegated authorities
- Raise bar over time – continuous improvement

A closing thought…

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