

dr. Pierre Casse, dr. Arnold Walravens

GOVERNANCE TODAY: A LEADERSHIP PERSPECTIVE

For many leaders in both the 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. Governance provides a legitimate approach to managing the distribution and use of power in any organisation.



Governance as a pillar of modern businesses could be defined as the process by which power is distributed, used and controlled for the benefit of the wider community.

When questions are asked about governance, 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 nor appreciate its implications for their own accountability. In this sense, governance is always someone else's responsibility. However, leaders at every level realize intuitively that governance is an issue which, 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 organization. However, the following considerations must be kept in mind:

- Its application and functioning can sometimes create problems that 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 Key Dimensions: Ethical Drive, Organizational Effectiveness and Power Distribution

Leaders must realize that governance has three major aspects: Ethical Drive, Organizational Effectiveness and Power Distribution.

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 wielded for the benefit and best interests of the wider community rather than only for the selfish interests of those who wield 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, the nature of the country's political system, the need to accommodate the expectations and rights of the different interest groups involved, the pressure from the stock market and the wider economic environment.

Organizational effectiveness is the second dimension of governance. No organization can be effective and successful without 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.

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 human organizations are run effectively and ethically, then we must admit that hitherto, it has failed us in many ways. There are a number of important reasons why governance frameworks have not delivered what is expected; the two main ones are the very nature of human beings and the structural challenge.

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 organization, 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. 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 organization will be properly served?
- How should the supervision system be organised and applied so that the abuse of power is controlled and minimized?
- What kind of fair and just incentive systems should be designed and implemented so that the organization 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 way organizations and societies are structured and managed is also a major hurdle in the practice of sound governance. A number of barriers are evident, for example:

- 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.
- 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 organize ourselves to survive, enjoy and grow is not conducive to healthy

governance practices. However, some mitigations have been adopted also in unitary systems in an attempt to avoid the structural trap:

1. The chairman of the board is a nonexecutive member;
2. Many supervisory boards have independent directors;
3. Most audit committees, including that on remuneration and promotion, are chaired by non-executives;
4. A clear-cut mission of the board and its code of conduct are established and publicized across the organization;
5. Non-executive members are changed regularly;
6. Members of the board have the right to access any parts of the organization and 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. 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 to 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 organizations 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, restricted expertise and detail orientation.

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

Many board members do not have the professional and business experience that is required to really contribute to the proper supervision of the organization.

They are either superficial at best or counter-productive. In some instances this results in a focus on the wrong issues and challenges and a 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 relations with stakeholders or because they have a high profile within society.

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 lead the organization. Supervisory boards are supposed to ensure that the organization remains ethical, uses the proper strategies so that all the stakeholders' interests are protected and finally that the organization is functioning properly with the right people in the right positions.

Promote acceptable practices

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 behaviour through the establishment and monitoring of clearly defined codes of conduct. Both experience and research have shown that corporate governance frameworks can prove effective provided leaders recognize 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 mi-

ssion, professional in their behaviour and courageous enough to highlight the practices which they consider fall below acceptable standards, despite the potential backlash from those whose self-interests may be adversely affected.

(source: MQ Revija)