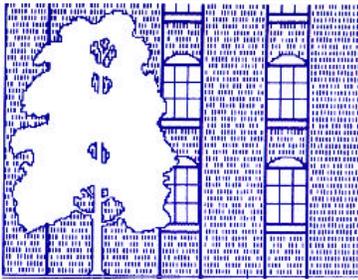


Governance Design

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Collective Wisdom... Fresh Ideas

Meaning of Governance

Governance of an organization is described in different ways:

- Directing and managing the business and affairs of a corporation.
- Steering an organization to success, which includes:
 - Determining a distinction
 - Approving a travel plan
 - Monitoring progress and agreeing to change in the plan.
- Providing policy direction and guidance but not “managing” the operations.

Distinction Between Governors and Managers

Governance is not about managing the day-to-day. However, this distinction is sometimes hard to make in practice. First, there are times when the governors, the Board of Directors, do intervene in the day-to-day. This might happen when there is a crisis, when major changes are taking place, where the CEO has lost the Board's confidence, or during start-up mode.

Second, there are situations where the CEO seeks the advice of individual members of the Board on specific day-to-day matters or when individuals offer such advice. However, these examples are about the behaviour of individuals, not the ‘governance body’.

Sometimes the distinction between the Board's governance role is described as being forward-looking and policy oriented. While true, that too is inadequate since the Board needs to be concerned about today's performance. The Board's involvement in specifics depends on the topic.

External Relations — In defining the relationship between the organization and the overall industry/system and other organizations, the Board is most active — actively participating in decisions about what and how to act.

Managing the Business — In addressing the organization's plans for its own ‘business’, the Board provides a vision and policy framework for the future. Primarily, management should develop action plans, budgets, and program policies. Those plans should be consistent with the directions the Board has provided, with consultation and advice from Board members where helpful, and approved by the Board. Day-to-day implementation is management's job.

Performance Evaluation — Performance monitoring and review is one of the Board's roles. It should be based on measures approved by the Board, information provided by management and responses/changes should be normally agreeable to management.

Organization & Change Management

Effective Governance

The Canadian Comprehensive Audit Foundation (CCAF's) has developed guidelines: *Governance Information: Strategies for Success (1996)* for overall effectiveness of governance in the corporation. As a basis for their work, the CCAF study characterized effective boards as having six characteristics.

These characteristics were consistent with the findings of the Toronto Stock Exchange's Study (Dey Committee, 1994). Furthering their work, the CCAF proposed twelve (12) areas where boards needed information and seven (7) qualities of good information as a basis for assessment.

Effective Governance

1. Comprised of people with the necessary knowledge, abilities and commitment to fulfill their responsibilities.
2. Understanding their purposes and whose interests they represent.
3. Understanding the objectives and strategies of the organization they govern.
4. Knowing and obtaining the information they require to exercise their responsibilities.
5. Once informed, being prepared to act to ensure that the organization's objectives are met and that performance is satisfactory.
6. Fulfilling their accountability obligations to those whose interests they represent by reporting on their organization's performance.

Information Needed

1. Management Direction
2. Relevance
3. Appropriateness
4. Achieving Intended Results
5. Acceptance
6. Secondary Impacts
7. Costs/Productivity
8. Responsiveness
9. Financial Results
10. Working Environment
11. Protection of Assets
12. Monitoring & Reporting

Qualities of Information

1. Explains Options
2. Compares Intentions with Results
3. Forward-Looking
4. Illuminates Policy and Administration
5. Recognizes Appropriate Time Frames
6. Facilitates Comparisons
7. Promotes Understanding without Oversimplifying



Framework for Governance Design/Assessment

The framework for designing a new governance structure or for assessing an existing one is provided below.

This framework highlights the following:

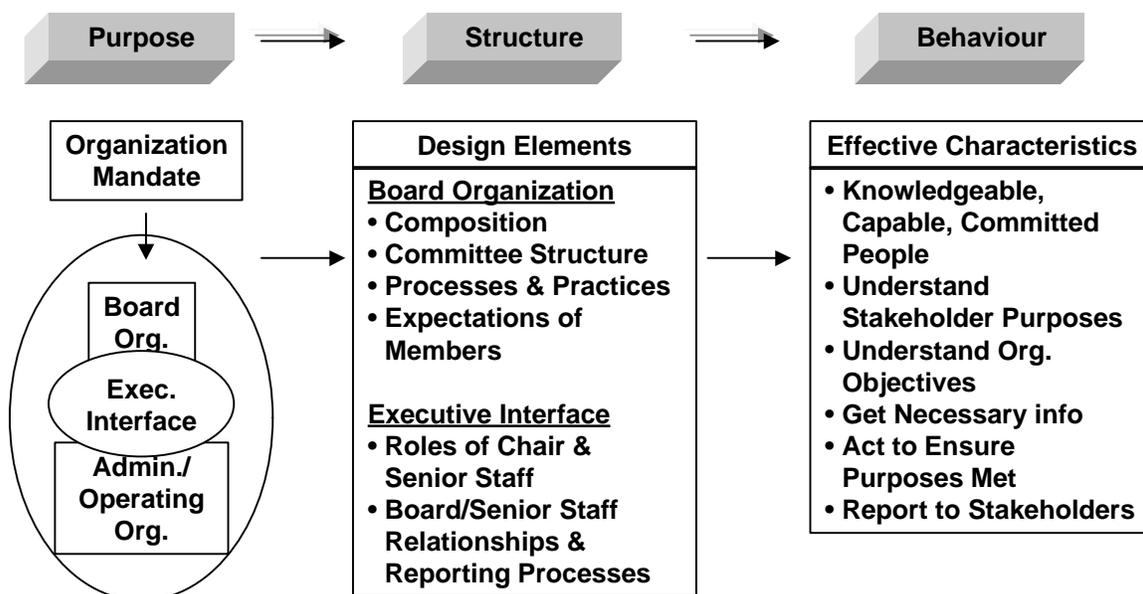
- Governance structure serves the Corporation's mandate — objects and related directions from owners.
- Governance is primarily the domain of the Board.
- Overall governance functioning needs to understand the Executive 'hand-off' or interface to the administration/operational organization.
- In designing the governance structure, one needs to decide each element of the Board organization (composition, etc.) and Executive Interface.
- In terms of how the governance works, one needs to consider the ingredients of effective governance (CCAF's study).

Role of the Board

The following is a list of typical Board roles:

- 1) Approve Purpose (mission, goals) and Values
- 2) Approve Business Plans — Multi-Year and Annual Targets
- 3) Select and Appraise CEO
- 4) Approve Financial Structure, Major Changes to Balance Sheet, Financial Plans and Budgets
- 5) Monitor Company Performance and Ensure Corrective Action Taken
- 6) Make key Decisions and Establish Policies for Delegated Decision-making
- 7) Audit Compliance to Policies
- 8) Review Organization and Human Resources
- 9) Manage Board Practices/Structure
- 10) Approve Reports to Stakeholders

Is the role relevant to the organization and what is the Board's involvement?



Role of a Member of the Board of Directors

As a member of the Board of Directors, a member is expected:

- To become sufficiently informed to make judgments on matters put before the Board.
- To take care to judge the risks involved in major decisions in terms of the effects on the corporation.
- To take into account the total interests of the corporation and its stakeholders and find a proper balance.
- To advise and counsel management in the development and execution of policies and plans.

A member of the Board is not the Board and does not carry the powers of the Board.

- A member's job is to be prepared to render judgments and give wise advice.
- In order to be properly informed, a Director has the right to ask for information and management has the duty to provide such information when it is pertinent to the performance of the Director's job.
- A Director as an individual should not expect to unduly influence management on how it carries out its responsibilities unless the member is charged by the Board to do so acting as its agent and not simply as an individual Director.

Directors and management have a common interest — the best interests of the corporation.

- Directors may assist the President, as a resource and on request, in the operations of the business and the implementation of Board decisions.
- Some Directors may play a greater role as advisor to the President on certain matters owing to their experience and skills.

Role of the Chair

When the Chair is not designated as Chief Officer, the role should normally include duties that go beyond simply presiding at meetings.

- Presides at meetings of the Board.
- Provides leadership to the Board in developing effective processes, practices and structures for carrying out the Board's role including Committees, Meeting schedules and arrangements, Reporting Practices.
- In concert with the CEO/President and Secretary, manages the process of preparing Board meeting agendas to expedite the work of the Board.
- In concert with the CEO/President, ensures that the Board is being informed effectively, in a timely way and so that Director's time is used efficiently.
- Proposes appointments to committees and task forces of the Board and maintains communications with chairs of such groups.
- Ensures, through the CEO/President, that decisions of the Board are executed.
- Provides general advice and counsel to the CEO/President and assists him/her as requested with major initiatives including relations with customers, suppliers, and potential business associates.
- Jointly with the CEO/President, manages public/media relations and representations with major stakeholders.

Role of President & CEO

General Accountability

The President & CEO is generally responsible for the effectiveness of the corporation's performance according to the plans and objectives approved by the Board. The President as CEO also leads the process of developing annual and longer term business plans and priorities, working with the Board to establish a clear direction for the corporation. The President acts to ensure that the resources and capabilities including people required to implement plans are acquired and developed. While expected and authorized to be proactive in managing the business, the President informs



the Board of progress and seeks the Board's advice on major matters potentially affecting the business.

Specific Functions — Menu

Without limiting the general accountability of the President & CEO, the following specific functions pertain:

- Directs, administers and coordinates the activities of the corporation in accordance with policies, goals and objectives established by the Board.
- Directs operations to achieve planned financial results and market development targets.
- Leads the process of preparing strategic options as a basis for developing Board approved longer term plans
- With the advance knowledge and approval of the Board, plans and directs all investigations and negotiations pertaining to mergers, joint ventures, acquisition of business or the sale of major assets.
- Prepares operating plans and budgets based on longer term strategic and business plans and recommends their adoption by the Board.
- Ensures the adequacy and soundness of the financial structure and with the financial officer proposes to the Board appropriate action.
- Appraises and evaluates the results of the overall business regularly and systematically and reports results to the Board.
- Proposes operating and administrative policies for the Board as a basis for delegated management.
- Ensures that the responsibilities, authorities and accountability of management are defined and understood.
- Ensures the ongoing availability of competent personnel for operating/administering the corporation.
- Ensures execution meets quality requirements of customers and the corporation.
- In concert with the Chair and Secretary, supports the effective management of the Board's activities including the agenda preparation and reporting to the Board.
- Ensures that decisions of the Board are implemented.

- Personally, promotes effective relations with customers, suppliers, industry groups, professional associations and the public.
- Manages jointly with the Chair significant external and stakeholder relations and representations.

Competency Profile for Board Members

The Board needs to take steps to encourage the recruitment of people with the competencies (qualifications and experience) that will best serve the corporation.

- **A Nominating Committee** should be appointed to develop, seek approval, and implement the proposed informal changes. It should consist normally of the Chair or past Chair, and two other members.
- **Criteria for Board Appointments** should be established for use by the Nominating Committee or 'ownership' group if others are involved. These should include the following:
 - No immediate conflict with respect to the person's job.
 - No other conflict with respect to investments or other involvement.
 - Has experience at a high level of responsibility or brings specific expertise in one of a defined list of area or competencies: list to suit each organization.
 - Person of high integrity, honesty and reputation.
 - Willingness and commitment to the organization.
 - Personal maturity, skills at working with a group.
 - Relationships that area a resource to the corporation.



Establish Annual Work Plan for the Board

Every Board should establish an annual workplan or agenda. It should contain regular annual items and projects that are in the 'hopper'.

Management can establish when the Board should review plans and policies. Recognizing the need to allow time for unexpected items, the Chair, in association with the President can plan a more realistic schedule for the coming year with a better sense for the workload.

Additional meetings can be anticipated and planned in advance. For Board members, this annual agenda/schedule offers a chance to look ahead.

Below is a skeletal example work plan with the regular cyclical agenda items.

| | 2003 SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER | 2004 JANUARY | FEBRUARY |
|--|---------------------|---------------------|------------------------|----------------------|-----------------------|----------|
| <i>Regular Cyclical Items</i> | | Budget Assumptions | | | | |
| <i>Management's Current Policy Development Plans</i> | | Annual Program Plan | | | | |
| <i>Special Items</i> | | | Business Plan Progress | | Business Plan Retreat | |
| | MARCH | APRIL | MAY | JUNE | JULY | AUGUST |
| <i>Regular</i> | Audit Cttee. Report | 1st Quarter Review | | | 2nd Quarter Review | |
| <i>Policy Devel. Plans</i> | | | | | | |
| <i>Special</i> | | | | Annual Board Retreat | | |

Establish a Routine Agenda Format for Regular Meetings

To work toward the objective of focusing the work of the Board's regular meetings, it is recommended that the Chair and CEO/President develop a regular agenda format, that times are allocated for each meeting, and that the Chair manages each Board meeting to targeted time periods for each section of the meeting.

On the example Agenda following, we suggest a general allocation of time for different categories of agenda items, the order on agenda and the lead responsibility. We suggest that the first order of business is the review of operating performance. The President provides this.

Then, the Board should address issues of policy and strategy which should be the key part of the monthly meeting. Approval of major operating decisions is next. For the first three sections of the meeting, attendance and attention is more assured.

Naturally, the Chair, in consultation with the President, will set each month's agenda to suit the particular circumstances. Nonetheless, the expected duration of each major item should be noted on each agenda. This indication will guide each Director, as well as provide a time management discipline to the meeting.

The senior staff can be asked to attend the portions of the meeting most relevant to them.



| ORDER ON AGENDA | CATEGORY OF AGENDA ITEMS | DURATION OBJECTIVE | LEAD RESPONSIBILITY |
|-----------------|--|--------------------|-----------------------|
| 1. | Minutes Approval & Agenda Review | 10 minutes | Chair |
| 2. | Operating Report & Discussion | 20 minutes | CEO/President |
| 3. | Policy & Strategic Issues | 30 - 60 minutes | CEO/President & Chair |
| 4. | Approval of Operating Plans & Major Projects | 30 - 60 minutes | CEO/President |
| 5. | Transactional Approvals & Information | 30 minutes | CEO/President |
| 6. | External Relations | 15 minutes | Chair |

CEO/President to Provide a Regular Performance Report

A regular report on operating performance should be provided by the CEO/President at each regular Board meeting. This report accomplishes a number of aims:

- It informs the Board on operating performance.
- Allows Board to oversee management by questioning elements in report.
- Channels such questions to relevant topics and issues — performance, not operations details.

The report typically covers the following:

- Sales/Revenues and trends.
- Costs and Budget variances.
- Program/Project implementation.
- Major issues re accounts/customers, legal, and organization.

Although monthly and quarterly reports should be provided to the Board in advance, the President should make a verbal presentation of summary information using visual aids. A copy of the visuals should be provided at the meeting or be distributed with the minutes. Management should provide detailed responses and information after the meeting to Directors with specific questions raised during the discussions.