

CORPORATE GOVERNANCE

What Does This Mean?

What Can I Do?

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What is Corporate Governance?

Governance Structures and Practices should be:

- Designed by the board to position the board to fulfill its duties effectively and efficiently
- Transparent: more important than strictly following any particular set of best practice recommendations
- Ensure competency and commitment of directors
- Ensure accountability to the shareholders and objectivity of board decisions
- Provide some form of leadership for the board distinct from management

What is Corporate Governance?

Governance Structures and Practices should be:

- Designed to promote an appropriate corporate culture of integrity, ethics and corporate social responsibility
- Designed to support the board in determining its own priorities, resultant agenda and information needs and to assist the board in focusing on strategy and associated risks
- Requiring the board to refresh itself
- Encouraging meaningful shareholder involvement in the selection of directors
- Encouraging effective communication with shareholders

Director's Duty of Oversight

- *State corporate statutes*: the business and affairs of the corporation are managed under the direction of the board of directors
 - Board doesn't act directly, but primarily through management
- Board also responsible for establishing overall corporate strategy and vision, working with management
- But their primary job is oversight:
 - Hire good people – with particular responsibility for the CEO
 - Hold them accountable
 - Reward them appropriately for their performance

Oversight Challenges

- Board is not involved in day-to-day operations, must look to management to provide relevant information
- Board materials may be voluminous, but key data may be buried in minutiae
 - Executive summaries may be inadequate or nonexistent
- Difficult to track, and hold management accountable on, all key areas of risk and opportunity
- Sarbanes-Oxley, other rules, focus too much on legal compliance
- Board needs tools to help it see the broader picture
 - Work constructively with management to help the organization manage risk and pursue opportunity

Role of the Board of Directors

- Does the Board:
 - Know and Support What the Owners Want?
 - Have the Proper Strategic Information?
 - Have the Proper Operational and Financial Information?
 - Have Sufficient and Meaningful **Communications** with the CEO, CFO, Owners and Management?
 - Comprised of Members Whose Skills and Knowledge **Align** with the Strategic Drivers of the Company?

How Does the Board Operate?

Mechanics

- Meetings
- Agenda
- Committees
- Compensation
- Evaluation
- Turnover

Dynamics

- Concentrate on “Critical” Issues—Change agenda
- Board-CEO relationship
- Fiduciary responsibilities
- Board as a team
- Communications with management and family

Board Meetings

- Frequency– typically 4-6 times yearly, often with annual retreat
- Scheduling– mornings with board dinners previous evening, interaction with senior management, calendared a year in advance
- Advance information– distribute agenda and board materials up to two weeks in advance
- Achieving consensus– preferable to voting
- Minutes– all written materials are discoverable

Required Board Information

- Types of Reports:
 - **Heat Map / Dashboard Reports**
 - Significant risks
 - Likelihood of occurrence
 - Potential impact
- Who Leads Discussion
 - Line management
 - Risk officer
 - CEO/CFO
- Reporting Frequency
- How many “major risks” does the Board monitor and what is the nature of the monitoring?
- How does the Board monitor the status of management’s mitigation efforts for each significant risk?

Boards Duty to Mitigate Risk

- Obtain consensus on appropriate scope of Board oversight of risk management process
 - Develop and implement meaningful definitions of risk
 - Understand key non-financial risks as well as the risk profile of the company
 - Assign business unit managers ownership for managing specific risk
 - Raise awareness level within entire organization
 - Take time to thoroughly and strategically review the risk assessment
 - Need a disciplined process for management to identify, assess, monitor and communicate risk
 - Design report for Board to create perspective on which risks are of most concern, and how management is addressing----
- The “Perfect Dashboard”**

Dashboard Basics

- Driven by Strategic Plan
- Board and Management Involvement
- Ensure metrics are understood
- Use graphs and color
- Review on regular basis
- Evaluate all material risks
- Always follow up on previous action items

Key Elements for a Successful Board

“To Work effectively, Boards must be seen as the ultimate high-performing team”

Successful Boards Work as a Team

Key Relationships with:

CEO/CFO

Senior Management

Family Members

Role of the CFO/Treasurer

- Does the CFO/Treasurer:
 - Know and Support What the Owners Want?
 - Create the Proper Strategic Information and Plans?
 - Develop the Proper Operational and Financial Information, Plans and Actions?
 - Have Sufficient and Meaningful Communications with the Board, CEO, Owners and Management?
 - Design and operate the Systems and Processes that Ensure Profitability, Efficiency and Effectiveness?
 - Keep the Company Financially Sound?
 - Create High Levels of Trust?

Effective Team Building

Culture:

- Create a culture of curiosity, challenge and accountability
- Intervene to keep the meeting on track
- Build consensus on board recommendations
- Encourage constructive dissent

Communications:

- Make it OK to ask the “dumb” question
- Encourage balanced participation
- Support Senior Management and Family to participate

Board Personality

Canadian board governance researcher, Richard Leblanc, observed over 39 Boards in action and interviewed over 200 Board Directors and concluded that the two most “Critical” factors that impact Board effectiveness are:

- 1. The mix of director “types” or personalities**
- 2. The processes that Boards use in making decisions or taking actions**

Dr. Richard Leblanc is a researcher and lecturer at the Schulich School of Business at York University in Toronto and specialized in Board effectiveness

Board Member Personalities

Leblanc's research correlates the following easily identifiable personality types with *ineffective or effective* boards:

Ineffective Boards

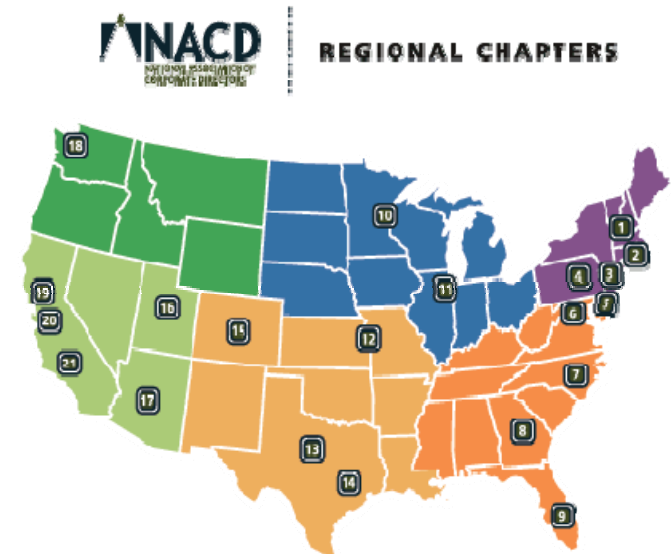
Caretakers
Controllers
Cheerleaders
Critics
Conformists

Effective Boards

Conductors
Consensus Builders
Change Agents
Challengers
Counselors

National Association of Corporate Directors

- **Over 10,000 members**
 - Individual Corporate Directors, CEOs, GCs, Senior Officers
 - Full Corporate Boards
- **Headquartered in Washington DC**
- **21 and ½ Chapters nationwide**
- **Members represent boards of:**
 - Public companies
 - Mutual funds
 - Private and closely held companies
 - Leading nonprofit organizations



Thank you for providing me this opportunity to speak with you. Please feel free to ask any questions.

Resources:

www.nacdonline.org

www.nacdnw.org

www.mlaneyassoc.com