

Is Policy Governance The Answer?

A US management expert is convinced that Policy Governance is the better way to achieving good corporate governance.

By Ayu Aziz

MANAGEMENT consultant Dr John Carver believes that codes on corporate governance are not the answer to achieving good corporate governance (CG). The solution, he asserts, lies in an approach called Policy Governance.

'Current CG codes in Malaysia and other countries are demanding that boards be more transparent, more independent, and more active. That is good. But none of the codes redefine and advance the very nature of CG,' he says.

According to Carver, as boards become more active, they will increasingly need better methods so that their growing power does not unduly weaken management. Unless they have better tools, they will improperly interfere in management, or managers will co-opt the process more, just as they do now.

Carver, who is based in the United States, was in Kuala Lumpur recently to speak at a seminar on *The Failure of Corporate Governance and How to Fix It*. He and his wife Miriam have published various books on the role of boards and policy governance.

Carver claims that Policy Governance, which is his brainchild, is a more advanced way of protecting shareholders' interests.

'In this approach, the board is proactive, explicit about its values and long-

cific way for a corporate board to carry out its corporate governance responsibility. 'Every board engages in CG in the same way that every executive or supervisor engages in management. But boards go about their governance in different ways, just as managers go about management in different ways,' he says.

In Policy Governance, board committees stay out of management's work. Although management views and knowledge are made known to the board, it rarely recommends what board decisions should be. Because roles are very clear, free communication among board and staff causes no problems.

Carver says board-management interactions can be enriching without leading either to meddling or to loss of board prerogatives. Board agendas are usually shorter, the deliberation usually on long-term goals and the mindset one of strategic leadership.

So how does the role of the board in Policy Governance and the Malaysian Code on Corporate Governance differ from each other?

'The main difference is that codes are like traffic laws: don't turn left here, don't drive more than 100kph, don't go through the stop sign. They are important, but they do not teach people how to be good drivers! Codes are more to protect shareholders and possible investors from bad governance than to tell a board how to do good governance. A corporate board can be in perfect compliance with any country's code and still be a terrible board,' he says.

Carver's approach may seem good on paper but whether it can be accepted and practised in boards worldwide given the



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range in the majority of concerns. It avoids intrusion into proper CEO prerogatives and rubber stamping. The job functions of board and CEO are not to be confused with one another,' he tells *Malaysian Business*.

'Policy Governance balances the board's control over management with the need for management to have leeway to make decisions on its own. In other words, the system provides the board with methods of making strong, independent decisions without disempowering management.'

Carver says Policy Governance is a spe-

diversity of business cultures is yet to be seen because it has not caught on with the corporate world, especially in Asia where companies and businesses are controlled by powerful families.

However, Carver does not regard the diverse business cultures as an obstacle. He gives two reasons why Policy Governance is slow to gain acceptance from the corporate community:

'First, Policy Governance is not understood among corporate directors since it is a relatively new technology. Frankly, it is better known in the non-profit field than in the corporate arena. Having competently trained consultants to help with this advanced system is in its early stages.

'Second, because current corporate governance practices are largely CEO-centric, CEOs cannot be expected to take the lead in spreading it. Policy Governance is a technology for boards, not for executives, but non-executive directors have historically been slow to invest in new methods or to challenge the status quo.'

Mohamed Khairi Mohd Isa, chief executive officer of the Malaysian Institute of Corporate Governance (MICG), who attended Carver's seminar, says Policy Governance is not widely accepted in the country as it does not blend with the Malaysian business environment and structure, where families and institutions have heavy influence over board decisions.

'Changing to a new structure of boardroom management that totally eliminates such influences is just not suitable at the moment,' he says. 'If Carver was familiar with our system, he would understand that the approach to better governance is with the Code.'

In this respect, he feels that the Code on Corporate Governance formulated by MICG is more advanced than what Carver proposes.

He says in many Malaysian companies, especially the non-blue chips, the major owners often resume more than one role in the boardroom: as CEO or managing director as well as chairman. The code recommends that the roles be taken by two different individuals to achieve good governance, but it is not a rule.

'What we are promoting is a self-regulatory approach, which is more effective. Companies are recommended to follow certain guidelines rather than be forced into complying with new policies or rules,' he says, adding that companies that want to be listed on the Kuala Lumpur Stock Exchange would have to follow certain listing requirements in line with the promotion of good CG.

In fact, the authorities are not punishing any listed companies for not following the recommendations for good governance. But, he says, they must know the repercussions of not adopting the recommendations, which means that they would not be able to attract new shareholders or compete globally.

However, another seminar attendee, Lee Kwai Siong, manager of the secretarial department in Mimos Bhd, feels that the Policy Governance approach is an excellent model that would help solve a lot of her problems. 'The Policy Governance model empowers individuals to act and everyone is clear about their roles and functions,' she says.

Lee admits though that one must study the policy's suitability before adopting it. She says the approach would probably be more easily adopted in small private companies than large ones like Mimos.

Norazlan Zainal, chief financial officer of Golden Pharoahs Bhd, while admitting that Carver's approach is second to none in terms of theory, expresses doubts that it could be able to address the complexity of doing business in Asia.

'In any corporation, there will always be one party that has more control than others, the others being mere puppets. It is a culture that has not changed and probably will not change at all. Who would want to let go of control?' he asks. **mb**

POLICY GOVERNANCE: WHO IS ACCOUNTABLE TO WHOM?

The Board is accountable to shareholders for the company's achieving what it should (such as ROE, long-term investment value, etc) and avoiding what is unacceptable (such as excessive risk, illegality, unethical conduct, etc). The Board must, then, connect with shareholders sufficiently to be able to speak on their behalf, define success and failure for the CEO, and finally ascertain and assure CEO performance.

The Chair is accountable to the Board for chairing the process so that directors fulfil their commitment to the discipline they have accepted.

The Chair is not, therefore, the 'boss' of the board, but its especially empowered servant whose task is tied to the Board, not CEO performance. (If the Chair is accountable for the CEO's performance, the Chair becomes a *de facto* CEO.)

The CEO is accountable to the Board for fulfilling the Board's definition of business achievement and avoiding the Board's prohibitions. The CEO is not accountable for board performance nor is the CEO accountable for the Chair.

Source: 'Crafting a Theory of Governance' by Dr John Carver and Carol Oliver