Governing for Performance

By **V RAMAKRISHNAN**
Professional Development Committee member, SID

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A basic tenet of any company is that it should deliver returns to its shareholders and other stakeholders. To facilitate this mission, the shareholders appoint a board of directors to ensure that the company delivers value within the rules of the game set by the government and society. In turn, the board hires a management team to deliver the results.

That is the essence of board governance.

Yet, for various reasons, many boards fail to satisfy their shareholders and stakeholders. In other words, they fail to perform in their governance responsibility.

For most companies around the world, good corporate governance is a work in progress. In my view, boards can be more effective if, from the outset, they are clear about the distinction between two sets of concepts: governance versus management, and compliance versus performance.

Governance versus management

The board's primary role is governance, not management. To understand this distinction, it is worth taking an analogy that is based on the root word of "governance", which is *kubernatis*, the Greek word for "steersman".

The steersman of a boat must know his start point and destination (to set the company's direction), internalise the vessel's strengths and limitations (prepare for the company's operations by leveraging strengths and mitigating the impact of shortcomings), understand wind direction and ocean currents (reacting to changing market conditions), ensure passenger comfort (delivering shareholder satisfaction), provisioning with required resources for the journey (resource planning), mitigate risks (risk management), and ensure the profit motives of the boat's owners are met (a healthy balance sheet, and profit and loss statement).

On the other hand, the preparation of the boat to leave the safety of the harbour, the actual sailing of the boat, and the day-to-day upkeep and operations on the high seas – these tasks are all the province of management.

In other words, an effective board takes a more strategic approach. It is not an operational role; its

guiding approach is "brains-on hands-off". Its hand steadies the tiller, but it does not run the engines.

Which is not to say that the board is not involved in the company's operations – it must actively monitor them and ensure that there are appropriate resources, people with the requisite competencies and sound systems and processes in place to meet the company's goals – only that it should not breathe down the neck of management and the executive team, headed by the CEO, that run the company's day-to-day business operations.

Conformance versus performance

In general, a board's governance responsibility covers two key aspects:

- Conformance with policies and guidelines, including compliance with the social, legal, statutory and regulatory requirements of the local, regional and global jurisdictions in which the company operates.
- Performance of the company; ensuring that the company's assets are used efficiently and productively to create value for its stakeholders.

The conformance role is manifested in how the company translates strategy into policy. The process is based on accepted board procedures and rules – most of which should normally be contained in a board manual which, in turn, should reflect the intent of the regulations.

The conformance dimension is essentially rule-based. It focuses on adhering to processes that meet regulatory requirements as well as legal and statutory frameworks. If it is not already clear, compliance requires the directors to accept and facilitate a disciplined working environment.

However, companies are incorporated to perform, with the acid test being the value created in relation to promises made to stakeholders. Value can be defined using any measure or combination of measures from a variety of financial, non-financial or market ratios. Whichever of these the board wishes to use, achieving the value promise requires a clear, well enunciated and measurable strategy. This strategy forms the core of the performance dimension.

Effective boards combine performance with conformance. Often, poor conformance is a consequence of poor performance, and poor conformance can lead to poor performance.

At the same time, many boards focus too much on conformance, especially compliance with rules and regulations. They fail to recognise that while conformance is crucial, it is not, as far as boards are concerned, the be-all-and-end-all. Yes, regulation and laws are essential to ensure that the people who "steer" and "row" the business do so within socially accepted norms, but the true value of an effective board is to keep the company safe whilst ensuring that it creates value. And conformance is the pivot to translate the outcomes to definite performance metrics.

Performance governance

Putting the two concepts together, I would argue that the focus of an effective board should be "performance governance".

As we have seen, stakeholder expectations go beyond compliance – the company must create value. And as an important part of effective strategic leadership and planning for performance, the board must work with an aligned and motivated management to understand the market, customers, employees, suppliers, and environmental and societal expectations. Only in this way can an appropriate strategy be developed and translated into performance targets. ■

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