



## LEADERSHIP ACUMEN Issue 4

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### Determining the Intangible Value of Board Governance

What is good Governance worth to your organization?

- An extra 15% increase in share price?
- A 1% reduction in financing or interest charges?
- Improved credibility with government or foundation funders?
- Enhanced creativity or access to new markets through expanded networks?
- Easier conclusion to partnership and alliance formation?
- Greater investor, industry, or community confidence and support?

Over the past few years, community members and leaders alike have been starting to realize how much of the perceived (and real) value of an organization is related to intangibles. These intangibles include: quality of executive leadership team, ingenuity and ideas of employees and suppliers, unique structural processes, inventions and special procedures, strong relationships with customers and alliance partners, Brands, and more.

For public companies, the analysts and investor relations professionals have tried to understand intangibles and factor them into their assessments of share value. Private companies often assertively protect their intangibles and find a place for them on their balance sheet. Not-for-profit and government organization leaders realize that their service delivery and future success is directly related to the talent and capacity of the people on the front lines.

The past year has highlighted another intangible, and highly valued component of organizational success and its future – the Board of Directors.

#### The Board as a Source of Value-Add

Many of our existing governance systems and approaches were established more than 15 years ago. Today, as a result of the evolving public crisis in governance confidence, a number of regulatory groups and task forces have recognized that there is significant value to good governance, and that certain minimum practices important to organization success and community trust.

In Canada, we have seen the release of the Ontario Securities Commission Corporate Governance Policy. Earlier in 1999, the Panel on Accountability and Governance in the Voluntary Sector released what is commonly referred to as the “Broadbent Report” which was followed in 2009 with the new Not-for-Profit Corporations Act. In the USA, The Sarbanes – Oxley Act of 2002 has re-energized governance bodies and required changes in structures, actions and reporting. Other jurisdictions around the world have diligently codified best practices for governance.

With these recommendations on the table, they should beg the question:

*“What value does our Board add to our organization?”*

Of course, Board activities and their attendant travel costs, per-diems, and support requirements can add up to a significant cost to an organization – even a small charity. As such, a major expenditure like this should draw out the next question:

*“What is our Return-on-Governance?”*

These are becoming important questions. They are also likely to cause some discomfort at the Board table. Directors are used to asking these questions of others: the CEO, senior staff, new organizational initiatives, and major budget areas. Directors are not so used to asking this of themselves.

The current focus on improved governance practice and the answers to these kinds of questions will be important steps in rebuilding investor confidence, community trust and perceived value in our organizations.

### **Value-Added Work of Boards**

When you start a discussion of ‘value-add’ you have to keep in mind that what connotes ‘value’ is constantly shifting. In the area of governance, what was a valued Board activity 5 years ago may not be so valued today. Indeed things that are valued today include practices that many Boards have never concerned themselves with. So, what are those value-added actions Boards can take?

Recent workshops with Boards have elicited the following responses to the value-add question above:

- Connection to community – including communications, access for input
- Mobilizing of personal networks for added insight, perspective, ideas and strategic thinking/assessment
- Ensuring a well considered vision and strategic direction is in place
- Approval/re-examination of major projects or strategic initiatives
- Political influence and/or awareness of key organizational issues
- Oversight of Management activity and compliance to regulations
- Selection of/guidance to CEO
- Establishment of an ethics policy and values framework
- Risk & Financial review, oversight and stewardship.

Surprisingly, some highly valued elements (by the broader public and community) do not generally come forward in initial conversations with Boards. These actions/practices include:

- Public protection and transparency of decision-making (including safety of practices, community and environmental impact, fair investor treatment)
- Honest, respectful dealings with the public, including forthright reporting and accountability processes
- Fair treatment of employees, suppliers and the environment both at home and internationally
- Fair access to products, programs and services
- Future relevancy and continued improvement of products and services
- Independent directors to ensure clean audits, and objective governance processes/recruitment

Finally, there are other high value elements of governance that are generally not surfaced by community, nor identified in initial Board conversations, but become clear after more in-depth exploration. These include;

- Assessment of industry, economic and social trends affecting the organization, being able to describe the organizational system, and the way it inter-relates to larger systems (sector, community, global markets)
- Risk management and assessment of organizational assets and capacity to sustain the organization (including succession planning for CEO and other key management and technical resources)
- Ability to bring added strategic resources (\$, partners, technology) to the organization so the CEO can implement the plans
- Independent director(s) as financial experts who can serve on the audit committee
- Development of a clear compensation philosophy for senior management, vis a vis the regular staff plan and community norms

For some Corporate and NFP Boards today, these items are quite familiar and well practiced. These organizations have long valued this governance work, and expected/paid Directors to perform these actions. For a large number of organizations, the illumination of these added demands of Board members is not only a bit overwhelming, but represents a major change in perspective, time allocation, and focus. Many Directors, seeing these new expectations are not sure they want to or have the time to take on these new practices.

### **Boards can ‘make’ or ‘break’ an organization!**

Good governance can ‘make’ an organization (i.e. entrepreneurial start-ups, organizations in transition, body-corporates re-building their credibility) by engaging in the above practices.

Poor governance can ‘break’ an organization (i.e. intimidation of senior management, squashing of creativity, casting judgment about ‘business’ elements they don’t understand) when they don’t take the time and effort to carry out the above work.

On one side, the risk of not performing these functions has been too obviously profiled in the media in 2002. On the other side, it remains unclear just what good governance practices can contribute to the results, reputation, and ‘stock’ of the organization. In order to determine the true value contribution of a Board we would need to be able to:

- Connect org. growth and strategic success to the strategic thinking and direction decisions of the Board and senior management
- Connect the innovations and increased market impact to the Board’s connection to community and industry
- Connect the competitive advantage of transparency, ethics and environmental policies to the Board’s oversight practices
- Connect the stability of the org. and competency/capacity to carry out its plans, to the asset risk assessment of the Board
- Connect the availability of key resources and effective creation of alliances and partnerships to the diplomacy and influence work of the Board

What is clear, is that Directors will need to dig deep, and find the will, the time and added knowledge to do a more thorough job. Organizations will also need to find added resources to support Board members in doing this work. Finally, Board members will need to understand the distinction between this governance work and the operational work of management to avoid doing the wrong work!

Together, Directors can clearly deliver extra, tangible value to their organization – value that will be seen and understood by the community in which they operate. Only then will the intangible value of good governance become truly appreciated.

## Exploring the Web!

[http://www.osc.gov.on.ca/en/SecuritiesLaw\\_rule\\_20050617\\_58-101\\_disc-corp-gov-pract.jsp](http://www.osc.gov.on.ca/en/SecuritiesLaw_rule_20050617_58-101_disc-corp-gov-pract.jsp)

Ontario Securities Commission new (2005) guidelines for Governance practices & disclosure.

<http://www.soxlaw.com/index.htm>

Summary of the key elements of the US Sarbanes – Oxley Act.

[http://en.wikipedia.org/wiki/Combined\\_Code](http://en.wikipedia.org/wiki/Combined_Code)

<http://www.frc.org.uk/corporate/combinedcode.cfm>

Summary of Board Governance regulations in the UK.

[http://www.glocom.org/opinions/essays/200204\\_fukushima\\_corporate/](http://www.glocom.org/opinions/essays/200204_fukushima_corporate/)

[http://www.acga-asia.org/content.cfm?SITE\\_CONTENT\\_TYPE\\_ID=12&COUNTRY\\_ID=267](http://www.acga-asia.org/content.cfm?SITE_CONTENT_TYPE_ID=12&COUNTRY_ID=267)

A look at the corporate governance issues in Japan.

Japan's Codes & Rules from Asian Corporate Governance Association.

[http://www.mas.gov.sg/fin\\_development/corporate\\_governance/code\\_of\\_corporate\\_governance.html](http://www.mas.gov.sg/fin_development/corporate_governance/code_of_corporate_governance.html)

A summary of the 2005 Singapore Code of Corporate Governance practice.

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