

# The Complex Art of Governance

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# Governance

- Stakeholders
- Board's Role
- Board Governance
- CEO/Management Role
- Corporate Organisation
- Related Issues
- Alignment of Interests
- Internal Labour Markets
- Compensation and Motivation
- Conflict Resolution
- The Essence
- Corporate Change: Some Lessons
- Building a Business: Some Guidelines

# Corporate Stakeholders

- Customers
- Shareholders
- Board
- CEO
- Staff
- Lenders
- Suppliers
- Community
- Government
- Onshore versus offshore

# Board's Role

- Representing shareholders' interest
- Appointing CEO
- Vision/strategy
- Operations/monitoring
- Remuneration framework
- Agreeing goals/budgets
- Ensuring alignment of interests
- Resolving conflicts of interest
- Maintaining corporate integrity

# Board Governance

- Size: small or large
- Directors' talents; international perspectives
- Executives versus non-executives
- Chairman: non-executive or CEO
- Directors' remuneration/commitments
- Legal liability
- Board culture
- Facing the tough decisions

# CEO/Management's Role

- Vision
- Culture
- Goals
- Strategies
- Tactics
- Implementation
- Delivery
- Reporting/information
- Accountability

# Corporate Organisation

- Transactions costs
- Centralisation versus decentralisation
- National geography versus globalisation
- Controls versus autonomy
- Bureaucracy versus entrepreneurship
- Lines of business
- Support functions

# Related Issues

- Nature of the market and competitors
- Core business versus outsourcing
- Full versus partial ownership
- Internal lines of business versus separate legal entities
- Global units versus domestic autonomy
- Role of the internet
- Regulatory and disclosure constraints
- Insider Trading



# Alignment of Interests

- Incentives/sanctions
- Clarity of objectives
- Efficiency of monitoring
- Personality/cultural issues
- Takeovers/changes in control
- Minorities
- Diverse cultures (including NZ v other countries)

# Internal Labour Markets

- Assigns jobs/determines pay
- Job classification versus individual talents
- Experience versus performance
- Job size versus value contribution
- Internal hierarchy issues
- Alternative rewards: status, promotion, recognition, pay
- Performance: past versus future
- Comparative versus absolute performance
- Recruitment/retention/termination

# Compensation and Motivation

- Incentives and sanctions
- Asymmetrical effects
- Individual versus group
- Performance measurement
- Distortionary impacts
- Management by objectives
- Ex post/ex ante rewards
- Equity issues

# Conflict Resolution

- Owners/managers
- CEO/Board
- CEO/managers/staff
- Lenders/equity holders
- Board/shareholders
- Company/government
- Company/community
- International considerations

# Governance: The Essence

- Goal clarity
- Separation/independence
- Incentives/sanctions structure
- Disclosure/transparency
- Relationship strength
- Culture and integrity

# Corporate Change: Some Lessons

- 1 Start with a crisis (or otherwise persuade people of the need for change)
- 2 Have an uplifting vision and a firm set of goals
- 3 Establish a framework of thinking and design the strategies within it
- 4 Get quality people to lead the process; emphasise individual accountabilities; but do this within a team framework
- 5 Communicate: market the changes
- 6 Avoid hand-wringing

Extracted from **People, Power and Politics, *The Dynamics of Economic Change***  
by Dr R S Deane, Discussion Paper No. 39, NZ Institute of Economic Research,  
October 1995

# Building a Business

Sam Walton's guidelines for building Wal-Mart  
(the world's largest discount retail company)

- 1 Commit to your business
- 2 Share the profits with staff and treat them as partners
- 3 Motivate managers and staff ("partners" and "associates")
- 4 Communicate everything possible
- 5 Express appreciation to staff
- 6 Celebrate successes
- 7 Listen to everyone in the company
- 8 Exceed customers' expectations
- 9 Control expenses better than competitors
- 10 Swim upstream