Director’s Guide to Governance Issues

The impact of increase in public awareness of the issue of corporate power, means that the way in which organizations are governed is in the spotlight.

Having a comprehensive and transparent structure of governance in place is more important now than ever before, but it should not be feared. Rather it should be seen as a force for good, an opportunity to prove the business has ‘nothing to hide’.

A positive system of governance should embrace the key concepts of accountability, transparency, assurance, stakeholder management, leadership, and fairness. Lack of effective governance leads to corruption, negligence, fraud, and lack of accountability.

Here are eight of the most common corporate governance issues that organizations deal with.

1. Inadequate Board and Committee Structures

The structuring of the board and committees focuses on promoting the practice of independent and objective judgement. Forming the adequate board and committee structure involves fostering for an agile structure, with the right number of board and committee members, knowledge, and expertise of every member.

2. Lack of Corporate Governance Compliance

Governance compliance is becoming an increasingly essential element for organizations. Lack of governance compliance can be related to either internal or external requirements. It is imperative for organizations to assess their internal governance frameworks and policies against governance requirements imposed by relevant regulators and applicable best practices. In addition organizations must assess the level of implementation against the adopted frameworks, address the gaps. This way organizations can ensure the reach the highest possible maturity level in adopting sound governance practices thereby achieving sustainability among other corporate governance objectives.

3. Inadequate involvement in strategic planning and direction:

The board’s involvement in strategic planning and direction is one the key responsibilities of running a business. Ideally, the board sets in place the long-term corporate strategy, assigns the key agents in place to implement the strategy and constantly monitors the performance of the organization against the strategy set out. A refined corporate strategy must be developed, monitored, and encouraged by the board with the aim of benefiting all stakeholders involved.

4. Lack of effective oversight measures and control environments:

To avoid lack of control, suitable insights and managed supervision must be put in place. Organizations must instate a transparent system involving ongoing monitoring, through introducing sufficient internal controls such as identifying and adopting a set of critical policies, establishing a robust internal audit function, as well as adopting an effective enterprise risk management framework. Organizations should also set a tone from the top regarding values, ethics, and proper behavior, as well as creating channels to safely report misconduct.

5. Conflict of interest and related party transactions:

A successful policy of governance needs to consider how to deal with any potential conflict of interest. A board member may have multiple interests which could influence the way they act or vote. This could result in the professional judgment or action of that board member being called into question. Related party transactions represent conflict of interest and can impact the management’s responsibility towards shareholders and cause board room malfunctioning. To mitigate this issue, the board must instill a strict policy addressing conflict of interest including related party transactions, which can have significant ramifications on the way that transactions or decisions are made.

6. Neglected performance evaluation:

Performance evaluation systems for board members have gained elevated attention as a critical tool to asses board effectiveness. Neglecting performance assessment will impact the board’s efficiency and overall company performance. The board of directors’ main focus usually revolves around the management’s behavior. However, to maintain effective governance, continuous evaluation of the board of director’s performance is an integral part of the board’s responsibilities.

7. Ineffective board dynamics:

No matter how far-reaching governance policies are, there will still be situations where personal group dynamics and dysfunctional relationships will cause problems. The earlier this is dealt with the better, as left unresolved, personal issues can have an extremely divisive effect upon an organization, leading to poor boardroom dynamics. Left to take hold these dynamics can result in a damaging collective pattern of thinking. Thankfully just as poor group dynamics can have a negative impact, healthy group dynamics can prove extremely positive.

8. Boards disconnect from executive management:

For a company to function effectively, the management team and the board of directors must be in general alignment. When problems brew between the board and the C-suite, the reasons can often be traced to poor interactions. Making sure there is a clear line of responsibility between the board of directors and executive management is key. lack of effective procuress in addition to poor communication can lead to inadequate access to information and uninformed decision making, which in turn leads to a high level of dissatisfaction amongst directors, causing far-reaching ramifications for the business as a whole.