Chart your course

Governance organograms and charts are useful tools for mapping the flow of responsibility and information between stakeholders across the business.

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The desire to get others to do something, yet worrying about whether the way in which they will do it will give rise to a less than optimal outcome, is a classic delegation conundrum. It is an issue which businesses are forced to overcome, as delegations of authority are essential to running all but the smallest of organisations. In acknowledging that necessity, it is imperative that it is not only the opportunities created by delegations that are recognised, but also the risks.

In the agency model, delegations start with shareholders who confer authority for the day-to-day running of the organisation to the board of directors. In turn, the board will delegate to committees, individual directors and senior managers. Managers delegate to their teams and individual members of staff or perhaps to outsourced service providers or agents.

Of course, in business, when delegated tasks are not properly completed or powers are misused, the outcomes can be extremely serious. History is littered with salutary tales of enterprises damaged, and in the worst cases destroyed, by maverick players who have overstepped their authority. As such, it is essential that delegations are properly understood, both as to their purpose and their limitations, and are balanced by controls that mitigate the risks and minimise the chances that the organisation is exposed to unnecessary costs or other forms of loss, whether through deliberate misuse or inadvertent error.

Moreover, in larger and more complex organisations, delegations are not just limited to individuals, teams

or committees but are also effectively made to other entities – generally subsidiaries but also joint ventures and perhaps trusts or other forms of legal vehicle. Such entities will be set up for particular purposes, perhaps to operate in a particular jurisdiction, to produce a certain product, hold specific assets or enter into a special transaction. While they are legal entities in their own right, they are effectively carrying out those functions on behalf of the group as a whole and, in turn, those entities will also have their own set of delegations in place, certainly to their directors (or equivalent) but perhaps also to their own employees and external parties.

The longer and more complex such individual and group entity delegations become, the harder it is to monitor and control the extent of the risks inherent within that structure. Accordingly, larger groups of companies need more formal processes in place to ensure that delegations are commensurate, have appropriate boundaries and can only be used for their proper purpose. Without a cohesive framework, management of larger groups of companies would become chaotic and expose the wider organisation to unacceptable and unidentified risks.

Commonly, therefore, a group governance framework will be established to ensure that there are adequate controls which are appropriate to the size, sector, geographic spread, complexity or other factors relevant to the business. Such a framework will impose limitations on delegations of authority, introduce processes to assess, aggregate and manage risk across multiple entities and establish the rules by which individual entities or business divisions are managed.

Such frameworks will comprise multiple high-level documents setting out the schedule of matters reserved to the board, committee terms of reference, key policies and agreed principles for subsidiary governance. Below these top-level documents, there will also be numerous detailed procedures, a financial controls manual, legal risk policies, staff handbooks, powers of attorney and individual role descriptions to name but a few. For the majority of colleagues, it is this latter, task-specific set of delegations to which they will need to conform. But given that they fall within the high-level governance framework, it is also essential that there is a good understanding of what that governance framework comprises, what it means and what its purpose and key controls are.

Understanding is key

Any business process or procedure is only effective if it is understood and followed. While the documentation that defines a governance framework can be crafted in such a way that it is as user-friendly as possible, in reality, the extent to which colleagues will thoroughly read, digest, understand and apply numerous pages of wordy policies and procedures is questionable. And unless there is a good understanding of requirements, inevitably implementation is going to be compromised.

Ultimate responsibility for the risks created by delegations remains with those who delegate their powers – for better or worse, they are accountable for the outcomes. And just as management's scheme of delegation starts with the board, so accountability ultimately rests with the directors too. The directors therefore have a strong interest in the effectiveness of the controls that are placed around the way that business operations are conducted and organised in practice.

The pandemic has changed some of our thinking on governance – both its principles and practice. The board's interest in the effectiveness of such controls, and the assurance that directors demand in order to enable them to properly assess that effectiveness, are set to increase if a strengthened internal controls regime is introduced in the UK – as signalled in the 2021 Department for Business, Energy and Industrial Strategy consultation on reforming the corporate governance, audit and reporting regime. Regardless of the outcome of that consultation, as part of a culture of continual improvement, now is a great time to look with fresh eyes at existing arrangements and reflect on their adequacy and whether they are properly understood and implemented within the organisation.

Effective implementation of a governance framework starts with ensuring the essential elements are communicated in a clear and understandable way. One way to do this is to create a governance chart. After all, they say a picture paints a thousand words and the same can often be said of diagrammatic representations of complex ideas and concepts.

Similar to a group structure chart showing how the various legal entities are owned, the way an organisation's governance operates through a series of delegations and corresponding accountabilities can also be graphically represented. Being able to distil the framework of delegations, key individual roles, operational divisions and legal entities, into something that can be understood 'at a glance', while not replacing the detailed provisions of the full documentation, can be a much more effective communication tool than a wieldy governance manual which few will read and even fewer will fully understand.

Where to begin

The process of creating, from scratch, a governance chart that clearly, accurately and succinctly captures all the relevant components should not be underestimated. I would suggest using a table as a starting point for gathering the necessary information, beginning with the parties which are key to the governance regime. These will include shareholders, the parent company's board of directors and its committees, the chair, executive and non-executive directors, company secretary, members of the executive committee, divisional heads and subsidiary directors. It is likely that there will be cross-over between these parties, for example a divisional head may perhaps be both a member of the executive committee and a director of various subsidiaries.

> **Ultimately the form of diagram is less important than the information it conveys**

Within your table, each category of key party should be listed in the first column before considering in each case what their main responsibilities are.

For example, the role of the parent company board of directors might be summarised as being collectively responsible for determining the purpose, values and culture of the organisation and for establishing a strategy to deliver long-term success and sustainable value for the business for the benefit of shareholders and other stakeholders. This will be different from the responsibility of the CEO, which may, for example, be summarised as leadership of colleagues within the business to deliver the group's strategy and objectives in a way that is consistent with the purpose, values and culture of the organisation.

Once all the key relevant parties' responsibilities have been summarised, the next column would outline the delegations and approvals that exist from which those responsibilities have been derived. For example, the board derives its authority from shareholder resolutions, company law, the articles of association and should also have a schedule of matters reserved to it. Conversely, in his or her personal capacity, the CEO's role is set out in his or her job description, as well as in board decisions and the agreed budget, strategy and annual objectives. For committees – including the executive committee – responsibilities will be set out in terms of reference. For subsidiary boards, the authorities derived from its articles of association will be tempered by any limitations and policies set out in the group's subsidiary governance manual.

In the next column, for each party, define who determines the relevant authorities. So, starting with the parent company board, its authority is derived from shareholders. Committee authorities will be derived from the board which approves its terms of reference and so on.

This process of completing the information for each key governance party within a table should be repeated for accountabilities – which parties are they accountable to and to whom do they report? It is worth noting here that some individuals may have accountability and reporting lines to more than one other party. While it may be appropriate to reflect more than one such relationship, care should be taken to consider whether dual reporting lines are part of the governance framework (and so should be included in the table) or relate to an element of a job which, while being carried out by someone who plays an important part in the organisation's governance, is not actually part of the high-level framework being described. An obvious example for governance professionals in this regard will be the company secretary, who may well report to the CEO for day-to-day management matters but, in terms of his or her governance role, should be reporting to the board.

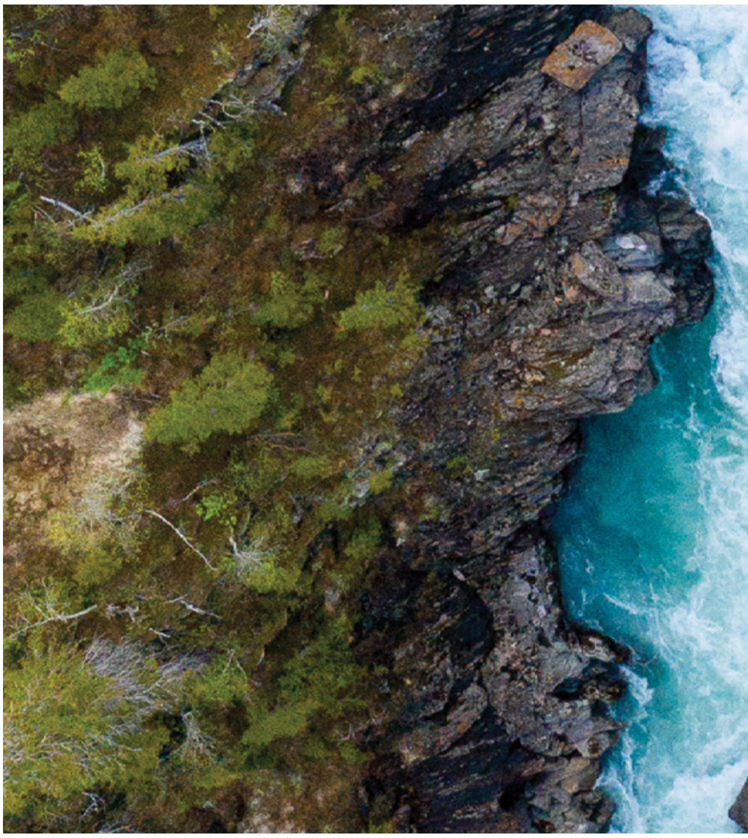
It is also worth noting that accountabilities in this context should reflect current-day expectations of the need to consider the legitimate interests of stakeholders beyond the traditional view of shareholder primacy.

The purpose of completing the table is to bring together in one place all the information relevant to the principal elements of the group's governance framework. By gathering the information in this form, the elements of the overall governance framework become clearer for translation into a governance organogram or chart. This element of the exercise can, in itself, be useful in terms of providing a concise summary of the principal parts of the full governance manual and for sense-checking whether the governance framework is sufficiently comprehensive to mitigate those delegation risks referred to above. It could, for example, highlight an unhelpful duplication, gap or lack of clarity over responsibilities and accountabilities.

To the drawing board

The governance chart itself should seek to represent each of the parties in the table, their responsibilities, from whom they derive their authority and to whom they are accountable and report.

A flow-chart style organogram is often favoured for this. Its boxes can readily be used to represent



the relevant parties and contain a summary of their responsibilities, while arrows are ideal for indicating the parties by and to whom delegations are made, the sources of authority and the corresponding reporting lines. Such boxes and arrows can be colour coded to signify particular factors and shaded areas can be used to indicate operating divisions or geographical units. Links can be added to drill down into further detail or to take the user to the full documentation.

Ultimately the form of diagram is less important than the information it conveys, and creative designers of such representations can be highly skilled at producing innovative solutions.

A final worthwhile step is to seek feedback from a range of colleagues – some of whom are, and some of whom are not, directly involved and familiar with the group's governance framework. If it makes sense to both sets of reviewers, you can be fairly satisfied that the governance chart will not only serve as a useful reminder and potential training aid to those who are directly tasked with key governance responsibilities, but that it can also be a helpful tool for wider dissemination to demystify the workings of the group's high-level governance processes.

As can be seen, the exercise to produce the first version of the governance chart will require considerable time and thought and it therefore makes sense to ensure that initial investment does not go to waste by allowing the chart to become out-of-date. Accordingly, a process should be instigated to periodically review and refresh the details. ■