Let’s Talk About ……… The Four Pillars of Governance: Best Practice for New Zealand Directors

I have recently completed the Institute of Directors (IoD) week-long Directors Course where I learnt about the Four Pillars of Governance*. I would like to share this with you.

From the Four Pillars:

The first pillar – Determining purpose:

The board adds value by leading the development of the entity’s purpose, goals and strategy. The board must take ownership of the entity’s strategic direction. Long-term business sustainability is a critical focus for the board.

The second pillar – An effective governance culture:

The board adds value by acting as a team with a high-performance culture committed to engaged, quality governance of the entity. It supports open debate, diversity, thoughtful challenge and constructive dissent.

Directors lead through high standards of ethical behaviour, commitment, and integrity. This culture is characterised by effective relationships between directors and with management, shareholders and stakeholders.

The third pillar – Holding to account:

A value-adding board holds management to account through informed, astute, effective and independent oversight of performance and conformance matters. It does not do the job of management but ensures purpose and strategy are understood by management and implemented.

The board oversees and monitors risk management.

Moira Paewai, Principal

The fourth pillar -Effective compliance:

The board adds value by ensuring the entity is and remains, solvent. It ensures the probity of financial reports and processes, and a high standard of compliance with regulatory environments.

Directors must comply with their duties and responsibilities in relation to the entity, its shareholders and other stakeholders. Excellence in governance is enhanced through complying with the spirit as well as the letter of the law.

Well that’s quite a list!

Bear in mind it is Best Practice, however, if it can be achieved then boards will drive value and performance and have a key role in enabling trust and confidence in business and its role in society.

We need to improve trust and confidence in business in New Zealand with much of the population of the belief that our recent Rockstar economy did not trickle down to the general population and the gap between the rich and poor is ever widening.

As the Four Pillars also notes, since the 2008 Global Financial Crisis, corporate governance regimes internationally are being reformed and strengthened. They are continuing to evolve, especially in light of scandals and pressure to conform to prevailing societal standards.

In the United Kingdom directors are required to promote the success of a company having regard to the long-term and:

- The interests of the company's employees
- The need to foster the company's business relationships with suppliers, customers and others
- The impact of the company's operations on the community and the environment

Further corporate governance reforms are underway in the United Kingdom and a key focus of these has been strengthening the voice of stakeholders (**especially employees and customers**) at a board level in large companies. The international trend towards greater stakeholder orientation is likely to continue.

The IoD considers that part of best practice is giving thought to ***whom* you serve as a director and *why*.**

While the importance of shareholder interests is clear, recognising legitimate stakeholder interests is advantageous for several reasons:

- Identifying the needs, wants and aspirations of stakeholders can lead to the development of new markets and new business opportunities together with more accurate understanding of existing operations
- Ensuring business operations and policies accord with broad community support can enhance corporate reputation, strengthen a corporate brand and build defensive barriers against competitors and a greater responsiveness to new opportunities
- Being seen as a responsible company can attract and retain more skilled and motivated employees leading to higher staff morale, increased productivity, lower staff turnover and a continual reinforcement of a company's brand message
- A company which constantly monitors social or community concerns can develop a much more responsive and accurate risk management capacity
- Being seen to be a responsible corporate citizen is a valuable brand, reputational and competitive advantage in a rapid 21st century world where issue-conscious consumers make quick judgements as to which companies they choose support

This is thought provoking & a real challenge for our pool of directors in New Zealand!

By Moira Paewai. Moira is a partner of MCI & Associates. Moira was born and bred in Dannevirke and she knows the region and its people well. She has over 25 years' experience in accounting and knows that it's as much about people as numbers.

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