

Guest Lecture: Dr Roderick Deane

The Complex Art of Governance

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Key messages from Dr Roderick Deane's Guest Lecture presented at the Treasury on 27 August 2002.

Dr Roderick Deane

Chairman - Telecom Corporation of NZ Ltd

Key Messages

Dr Roderick Deane spoke about the complex art of Governance discussing governance; corporate stakeholders; the board's role; board of governance; CEO/Management's role; corporate organization; new US law; conflict resolution; corporate change and building a business.

The key messages that came from the Guest Lecture are as follows:

- Keep governance arrangements simple and, therefore, effective.
- Governance = diverse. Arrangements need to be organization specific, meaning that too many laws and regulations can be a hindrance to effective decision making.
- Rules and regulations are necessary but in the USA with the Sarbanes-Oxley Act getting into so much minutiae that taking away all flexibility and judgement and efficiency. Need the right balance between legislation and self governance. Plus if legislate too much will decrease for boards to act with integrity.
- Managing a company can be as complex as managing Government or a Government department.
- There are a whole range of stakeholders in any private organization e.g. employees, suppliers, community, shareholders etc and this can be very complex.
- The Board's role is to maintain integrity and it is difficult for a company to know whether to simply comply with all the regulations or exercise some judgement.
- The complex issues for the board are ensuring the alignment of interests between the shareholders, the board, CEO and management team, resolving any conflicts of interest and maintaining corporate integrity (which is perhaps the most important). The company has to have stakeholder support and the company has to be prepared to front up on the issues.
- Smaller boards tend to be more streamlined and flexible allowing them to be more efficient than larger companies.
- It is difficult to get the right mix of board members with enough skills to be on a board of governance in New Zealand.
- The board should be legally liable, unlike civil servants who are not liable. This helps ensure integrity, but can be off putting for people to be on board.

- The CEO/management's role is very important and it is essential that a company have a CEO that can make things happen, ie make tough decisions and see them through.
- The transaction costs around governance are very high and will increased compliance really give us better governance?
- There is a lot of "fretting" about governance in the private sector with people attending meetings that they don't have to.
- Regulatory and disclosure constraints can often be a waste of time. Who really reads any of it?
- Problems with the New US Law Sarbanes-Oxley Act 2002:
 - the Certification CEO/CFO there is a more demanding criteria than before;
 - there is a loan prohibition where they are not allowed to lend any money to senior managers, CEO's etc. This has been problematic, eg in regards to banks the staff would have to be clients of other banks;
 - real time basis for events disclosure - the material has to be disclosed as it happens rather than after the event.
- The S-O Act is pervasive because any company based in the US has to comply regardless of compliance to other regulations in home nation.
- In an organization personality/cultural issues are very important.
- Conflict resolution is a very difficult issue in most areas of management.
- Disclosure and transparency is fine but it has to be done sensibly in the right balance and moderation. Integrity is the bottom line.
- Does not think need more legislation to cope with problems such as Enron
- If New Zealand goes down high governance road like the US, then New Zealand will lose all competitive advantage ie having an environment conducive to business success.
- If centralization decreases too much then lose innovation (in an organisation) capacity.

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