



Leadership And Corporate Accountability

Lecture 2

Leadership at the Top: Board versus CEO Decisions

Questions:

- ① In your organisation, does your board and CEO have a clear understanding as to the matters that require the board's approval?
- ① Are many matters left to the CEO judgement as to whether Board's approval is required?
- ① Should the Board always make a decision when asked by the CEO?

Leadership at the Top: Board versus CEO Decisions

In my family, my husband makes all the major decisions. So far, there have been no major decisions.

Anonymous (not my wife)

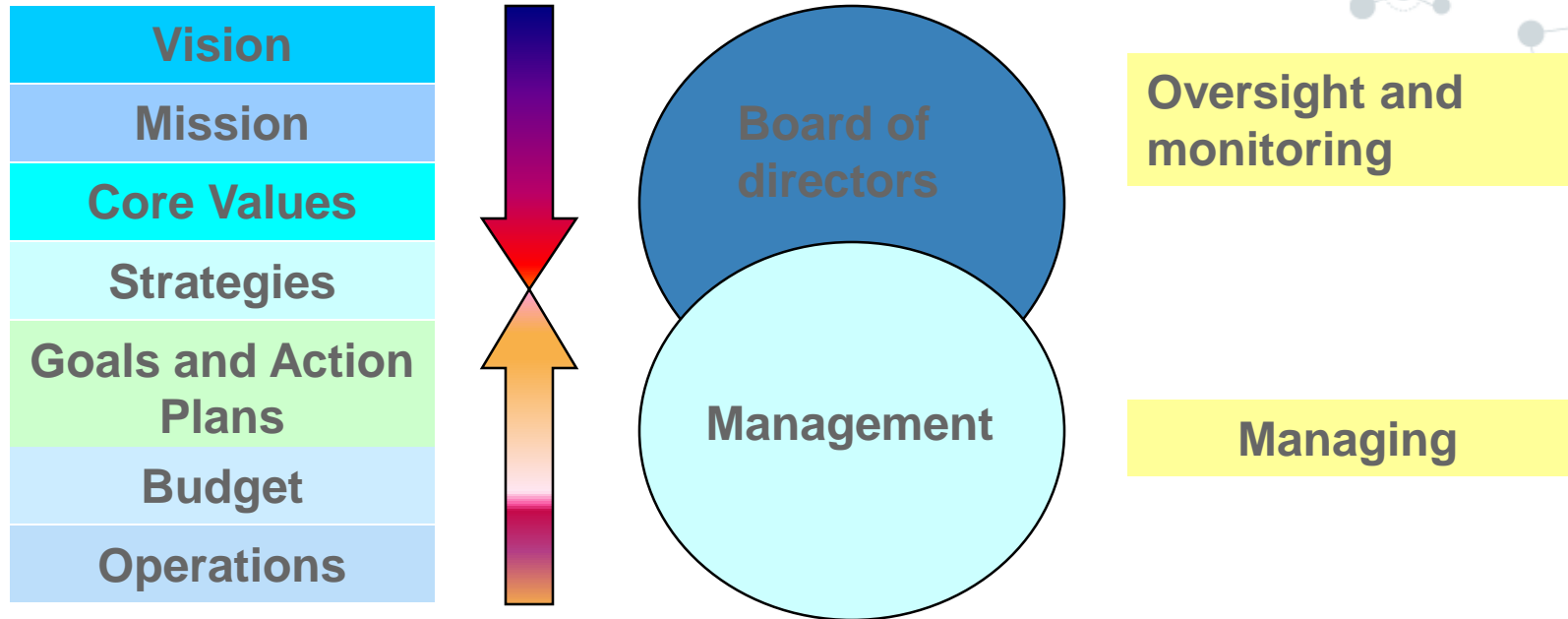


Leadership at the Top: Board versus CEO Decisions

Wondering aloud how “the board of directors allowed itself to be almost completely captured by the former CEO,” he said: “No organisation can leave just one man to make decisions. Like in old China, when the emperor says this, and that’s it, things are done.”

Health Minister Khaw Boon Wan, on the old NKF Board
(The Straits Times, December 4, 2005)

Roles of the Board and Management



Roles of the Board (CG Code 2005)

1.1 The Board's role is to:

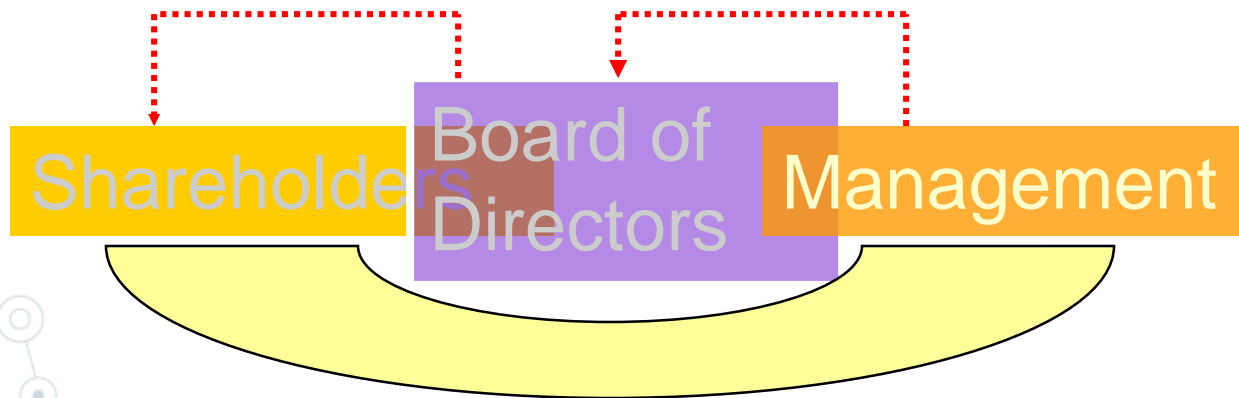
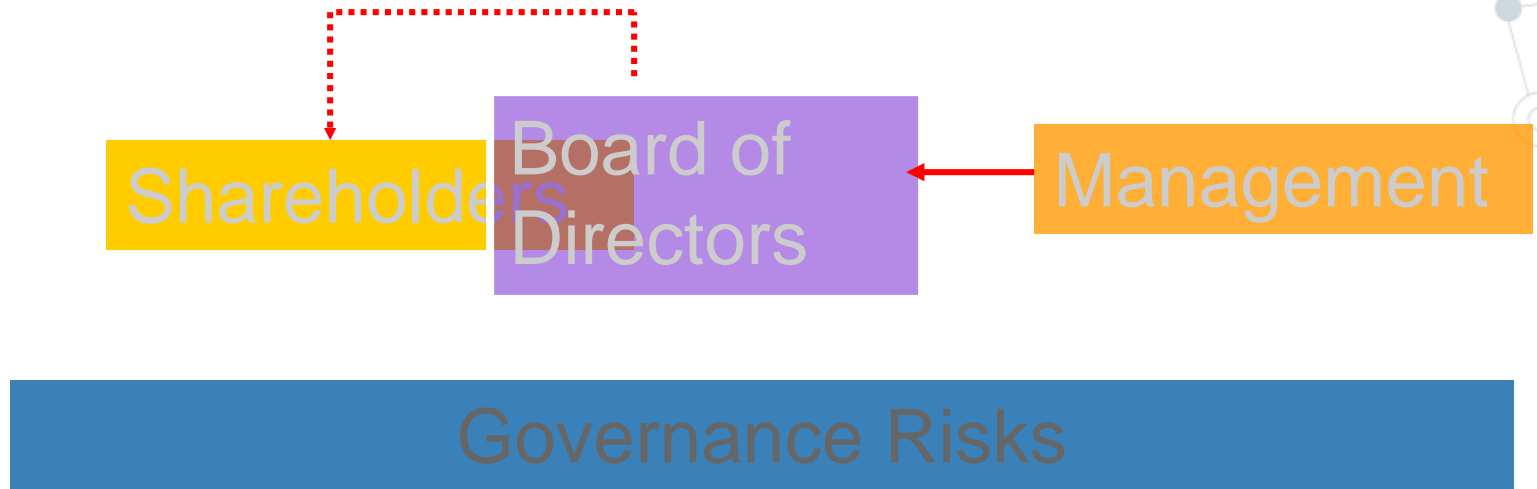
- (a) provide entrepreneurial leadership, set strategic aims, and ensure that the necessary financial and human resources are in place for the company to meet its objectives;
- (b) establish a framework of prudent and effective controls which enables risk to be assessed and managed;
- (c) review management performance; and
- (d) set the company's values and standards, and ensure that obligations to shareholders and others are understood and met.

Delegation by the Board (CG Code 2005)

1.3 If authority to make decisions on certain board matters is delegated by the Board to any Board Committee, such delegation should be disclosed.

1.5 Companies should adopt internal guidelines setting forth matters that require board approval, and specify in their corporate governance disclosures the type of material transactions that require board approval under such guidelines.

Blurring of the Relationship Between Shareholders, Board and Management



A Good Leader: The 3 C's



◎ Character

◎ Competence

◎ Commitment



Ethics versus Competence

© NKF withdraws defamation suits against SPH and journalist [www.channelnewsasia.com, 12 July 2005]

The Board also reiterated its whole-hearted support for Mr Durai as its CEO and looked forward to carrying on all its life-saving activities with full vigour and strength, and to continue to serve the public to the best of its ability.

Ethics versus Competence

Gu Yanfei tipped to be new CAO head [Business Times, 19 October 2005]

'She is the only one, at this point, who can effectively handle relations between CAOHC and the Singapore team - a matter which is key to CAO's future survival,' a source told BT. 'No one can manage the concerns of both sides as well as she can.' Sources, however, also told BT that Gu may not be appointed chief executive immediately or in the near future as she still faces criminal charges relating to the CAO scandal. She was charged in June for breaching her fiduciary duties as a director and for failing to disclose CAO's huge options trading losses of US\$550 million to the Singapore Exchange. The maximum penalties are a fine of up to \$250,000 and/or jail of up to seven years. Sources say it's likely that an interim CEO will be appointed first, with Gu taking over only when her charges are resolved - even if that means she will only become CEO a year from now.

Ethics versus Competence

Brilliant boss faces insider trading charges
[Business Times, 7 September 2005]

Brilliant said yesterday that Koh will continue with his current duties as executive chairman and managing director. 'The board wishes to emphasise that the charges pertain to Mr Koh in his personal capacity and do not affect the operations of Brilliant which is not under any investigation,' it said.


Ethics versus Competence

Boeing fires CEO over relationship (www.cnn.com, 7 March 2005)

Boeing has ordered its Chief Executive Harry Stonecipher to step down because of what the U.S. aircraft giant said was an improper relationship with a female executive. The company said the female executive, who has not been identified, did not report directly to Stonecipher and that the relationship was consensual and had no effect on the conduct of the company's business. But it said the relationship violated Boeing's code of conduct... "the board concluded that the facts reflected poorly on Harry's judgment and would impair his ability to lead the company," ... "The resignation was in no way related to the company's operational performance or financial condition, both of which remain strong," Boeing said in a statement. "However, the CEO must set the standard for unimpeachable professional and personal behavior. And the board determined this was the right and necessary decision under the circumstances.

Five Suggestions for Improvement by Boards



- ◎ Implement comprehensive code of conduct emphasising ethics from the top
 - ◎ Implement whistleblower arrangements
 - ◎ Clarify the board's and CEO's roles (develop board charters/board delegation guidelines)
 - ◎ Implement proper framework for internal control and risk management systems
 - ◎ Pay more attention to succession planning
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Five Suggestions for Improvement by Regulators

- ⊙ Introduce legislation protecting whistleblowers
- ⊙ Make independent directors more accountable – disqualify those who are grossly negligent?
- ⊙ Increase transparency of ownership (look at nominee ownership issue/disclosure of substantial shareholdings)
- ⊙ Consider allowing cumulative voting for directors
- ⊙ Reconsider the nature of interested party transactions



Q & A

Thank you!

