There has been a recent emphasis in the corporate world on best practices for corporate governance. The increased focus on governance has many boards of directors looking for ways to enhance their governance practices. Many of them are committed enough to the governance process that they’re allocating financial resources to improving governance practices within their companies.

Boards that focus on governance are starting by re-evaluating their policies, establishing board-level risk committees and clarifying the goals of all their committees. One of the newer strategies of boards is to appoint a Chief Risk Officer (CRO), and the preference is for the CRO to be an independent director.

For many boards, it’s back to square one with comparing their current governance model with how it functions in today’s marketplace, finding gaps and working toward optimizing it.

What Is a Governance Model?

Deloitte’s guide to governance models, “Developing an Effective Governance Operating Model,” outlines in detail how to build and improve governance models.
Every company has unique circumstances and needs, and their governance models will reflect the uniqueness of their companies. There are four major components of a governance model, and each has important key subcomponents:

1. **Structure.** The subcomponents under structure are organizational design and reporting structure and the structure of the committees and charters.

2. **Oversight Responsibilities.** Key subcomponents under this component are board oversight and responsibilities, management accountability and authority, and the authority and responsibilities of the committees.

3. **Talent and Culture.** Subcomponents under this section are performance management and incentives, business and operating principles, and leadership development and talent programs.

4. **Infrastructure.** Policies and procedures, reporting and communication, and technology are the key subcomponents under this section.

**Turning the Framework Into an Operating Model**

Deloitte developed their Governance Framework as a tool to help corporations review and improve their governance frameworks. The governance processes they developed highlight the various elements of governance, clarify roles, and explain the relationships between governance, risk management and organizational culture.

The infrastructure surrounds all elements of Deloitte’s governance framework. The infrastructure includes the people, processes and systems that management puts in place every day. The infrastructure includes communication processes to transfer information to the board, stakeholders and management.

To learn more about how to digitize your governance needs in the boardroom, check out the Governance Cloud and see how Diligent can meet your board’s needs.

In addition to overseeing the company’s governance processes, boards need to play a role in developing parts of the operating model and participating in activities. The board’s role in development should focus on governance issues such as strategy, integrity, talent, performance and risk governance. Thus, the governance framework and operating model is a process for turning the framework components into policies and protocols.
What Are the Components of a Governance Operating Model?

The main components of a governance model contain some important key aspects:

**Board Oversight and Responsibilities**

The governance model offers boards a way to articulate the oversight process, engage management in communication about governance matters, and learn where governance activities occur at various junctures in the company.

**Committee Authorities and Responsibilities**

Much of boards’ work happens in committees. The governance model helps define the work and authority of its committees and outlines how committees communicate and report their efforts to the board and management team.

**Organizational Design and Reporting Structure**

Governance models should establish the authority that presides over compliance, risk, legal, finance and audit matters. The model should also define how the board will oversee risks across all regions and businesses. The organizational design and reporting structure should be made clear to employees and stakeholders.

**Management Accountability and Authority**

The governance model should specify authority and accountability for key roles and identify a governance process for managing disagreements. Governance models should bring balance and improved communication between those making decisions about risks and risk managers. The model should also ensure that individuals know the rights and limits associated with their decisions. Boards should acknowledge the control functions at the regional and global levels.

**Performance Management and Incentives**

Incentives can enhance performance, but boards need to assess when incentives interfere with preserving assets and taking risks. A governance model should establish goals for performance,
with the goal of getting the best value while considering risks and preserving assets. The goals should reflect the corporate tone and culture.

**Three-Part Approach to Enhancing or Establishing a Governance Operation Model**

Deloitte recommends a three-part approach to establishing a new governance operating model or enhancing an existing model. They’re not suggesting that the board take responsibility for every part of the governance model. What they are suggesting is that boards are uniquely positioned to form the governance model and to delegate duties to the appropriate parties to carry it out. The three parts are as follows:

*Part I*

Define the operating requirements for your governance model. Look for frameworks that will work best for your organization or design your own. Factor in any applicable regulatory, governance or legal requirements. Consider the scope of your operations and how governance factors in all aspects of it. Understand your current state of governance, including its strengths and weaknesses.

*Part II*

Design the governance operating model and its components. Define the key accountabilities, decision rights, and path for escalating matters up the levels of authority.

*Part III*

The final part is implementing the governance operating model. The completed model should define how boards will measure their success using standards and metrics. The model should tie governance requirements, organizational functions and business requirements together and allocate resources accordingly. Implementation should include a schedule of how often the board reviews the governance operating model and may suggest that a third party participate in reviewing the plan. The review process should include the components, the plan and the implementation.
Concluding Thoughts About Building Strong Governance Models

With so much at stake and so much to oversee, boards need the assistance of electronic board management systems to help them address the issue of improving governance practices. Diligent Boards and the integrated suite of governance tools in Governance Cloud is the perfect solution for boards working on their governance models. Governance Cloud boasts high-level security in each of its programs, including the board portal, secure messaging, minutes program, board evaluations, D&O questionnaires and entity management software programs. Having a fully integrated Enterprise Governance Management system will aid board directors in developing governance frameworks that work for the benefit of the board, the managers, shareholders and stakeholders.

About the Author

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