

SOE Board Talk

Iakweaolep

Recent Board Talks have discussed, at length, the role of the Board and the concept of the Governance tripod, where the role of owners, the Board and management need to be finely balanced for effective corporate governance.

This week we discuss issues of management.

Please contact SOEMU if there are any concerns or clarifications needed.

2nd Floor Finance Building
Ph. 625 8320

Management has been described in many ways, mostly with reference to the administration of an organization and the process of dealing with or controlling things and people.

Remember, the Board is legally accountable for the overall performance of the SOE, but management is responsible for the day-to-day operations and administration. The board delegates day-to-day supervision, production, marketing and financial management of the SOE to the management team, overseen by the CEO.

The CEO and his/her management team are therefore responsible for developing suitable systems, business processes, human skills and capacities to undertake the requirements of the SOE and to perform to a satisfactory standard and meet (accepted) targets and objectives as in the business plan and SCI.

In Board Talks 15 – 17 we detailed the concepts of a performance management system (PMS) and indicated that developing a suitable PMS is fundamental to successful management and to fulfilling the requirements for achieving business plan objectives.

The role of Management

Broadly managements role is supervision of the day-to-day operational activities of the SOE and day-to-day custodianship of its assets. In large organizations, senior management often fulfil a more strategic, long-term role to assist the board.

In RMI SOEs as stated, it is important that the governance structure and stakeholder relationships are understood; enabling the owner, the board and the management to fulfil their roles and responsibilities without undue influence.

SOE Board Talk

In terms of the management structure, it will be unique to each SOE and under the delegated responsibility of the CEO. Under sections 626 and 627 of the SOE Act, the board appoints the CEO, after consultation with the Minister and the CEO appoints a team of managers.

All employees, including managers, should be engaged and supervised, through implementation of effective human resource policies including recruitment, training and development, performance management, remuneration and reward, etc. and to abide by effect codes of conduct and reporting structures.

The Chief Executive is responsible for his direct reports and the team of employees under their control. Each manager should be appropriately recruited and inducted to the SOE and to perform against a specific job description that includes rules for performance assessment.

The Chief Executive Officer

The primary objectives of the SOE are to be a successful business and to maximize the net worth of the government's investment. These same objectives must be key to the Chief Executive's job description.

A key function of the board is to support the CEO. In turn, the CEO needs to interact with and support the role of the board. The role of the CEO must be clearly understood by all parties:

- Overall operational leadership,
- Accountable to the board for all aspects of the management and operation of the SOE,
- Develop strategies and proposals for board consideration,
- Be the link between the board and management. The CEO "represents" the board when dealing with management and staff,
- Manage the organization's image and public relations,
- The CEO is the day-to-day face of the SOE,
- Inform chair and the board of issues and developments,
- 'No surprises' – the board should not find out about major issues by reading about them in local papers, on the TV news or company's website,
- Live the Company's values and ethics.

In accordance with section 627 of the SOE Act, the CEO must be engaged on a performance-based contract. This forces a level of accountability (of the CEO) that provides the basis for both organizational success and the relationship between the CEO and the board.

SOE Board Talk

Primarily, the CEO needs to cultivate an effective working relationship with the chairperson of the board. Usually the onus is on the full-time person (the CEO) to be adaptable and the chairperson (involved in the appointment of the CEO) is clearly senior, irrespective of the greater involvement (in the business of the SOE) of the CEO and usually, greater industry experience and knowledge.

The character and personality of the chairperson will be of great interest to the CEO. Although there is much responsibility on the chairperson and regardless of efforts by the chairperson to foster an effective working relationship, usually, in practice it is the CEO who is required to adapt and to respond to the demands from and the personality-type of the chairperson.

Good luck this week in the boardroom

SOEMU