

# GOVERNANCE – HELPFUL DEFINITIONS

## GOVERNANCE

Is the way in which an organisation is managed at the highest level and the systems for doing this. It is not what decision you make, but how you go about making it.

In plain English this means running your enterprise based on the decisions made at regular, short and punchy Board Meetings (planning and overview), and not on a daily basis as each day/week unfolds (reactionary).

## THE PEOPLE

### Shareholder

A person that **'owns'** the business - whether they work in it or not. A Shareholder **'may'** be personally liable for some or all of the debts of the business. They are the ones entitled to the profits of the business (dividends). They have rights with regard to **'major transactions'** (ie selling or a major change) and the Board must seek their approval for these.

### Director

A **'Captain of the Ship'** who decides what the business will and will not do (not on a daily basis, but overall). This person **'may'** also be an owner (shareholder). They **'may'** also be an employee (CEO, Floor Sweeper). Either way, while they are making decisions on the direction of the business they have an important hat on as **'Director'**.

A Director has specific legal obligations and liabilities at law that other people do not. If you have several Directors on a Board it is the majority that makes decisions that move the business forward (ie they can disagree).

### Board

The group of all the Directors of a company. If there is only one, then you have a Board of one. If there are more, then the group is your Board.

### CEO/GM (General Manager)

The Head Employee. It is important to regard this person as a worker while they are operating as CEO even if they are also a Director or Shareholder. As Head Employee this person makes all the daily decisions (the Board does not). The Board sets the policies/parameters then the CEO has to work out how they will put those into effect on a practical level.

Example: The Board says the budget is set for 10 staff. The CEO then knows how many people they can employ, and what the total wages budget can be, and sets about **'doing'** it.

If the CEO keeps running decisions past a Director then neither are doing their job properly.

### Managing Director

A fancy name for a person who is a CEO and a Director - ie the MD is on the Board (making the big decisions at that time) and the Head Employee the rest of the time. This blending is common in SME (Small to Medium Enterprises), but great care should be taken not to

inadvertently make a **'big'** decision while working during the day that would be better made by the Board in its proper setting (of planning and consideration).

### Employees/Contractors to the business

All the rest of us mere mortals who actually do all of the work!

## IMPLEMENTATION

### Board Meeting

- Held every 1-3 months only (not weekly)
- Owners/professionals (usually no staff)
- Discussing high-level/strategic matters (not daily operational)

### Avoiding problems by better planning.

### Management Meeting

Weekly/monthly, all about what the issues are and how they are going to be sorted.

Dealing with problems as they arise.

## BOARD OF DIRECTORS

### Formal Board

In a Formal Board the directors sign an acceptance to take on that responsibility and appear on the Companies Office register as a Director.

When the directors meet in a Board Meeting the outcomes must be followed by the Management. They have no choice.

In the Board Meeting if one director disagrees but the rest voted to do it, then it must go ahead. The dissenting director must accept it or if they consider it a critical matter their only option is to resign.

A formally appointed Board Member is personally liable for quite a number of decisions made so great care must be taken to ensure they only remain on the Board of something they agree with on an overall basis. They can vote against a specific issue, but overall they must be satisfied with the decisions made in the running of the business.

### Advisory Board

Operates under all of the same principles of a formal Board Meeting but provides non-binding advice to the Management. Unlike a formal Board, an Advisory Board has no power - you still remain in control.

The benefits of an Advisory Board to SMEs are:

- The benefit of a wider perspective of input into decision making (no one person knows everything)
- A recurring set time to Check & Measure (the past) and plan (the future) something we would not otherwise do on a regular basis unless we were held to account to do so
- Light weight – cheap and fast – giving the benefit of the wider input plus Check & Measure without getting bogged down in time, money and bureaucracy

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