GOVERNANCE MATTERS
What is Governing Policy?

BOOKER
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Promoting Excellence in Corporate Governance,
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Introduction

An important role for the Board of Directors is to set policy under which management takes action to manage the affairs of an organization. But what is policy?

Questions often asked are:
- What is a governing policy and how does governing policy differ from management policy?
- How often should a policy be updated?
- How does the organization know if the governing body has set a complete suite of policies?
- What is an effective way to document policy?

Governing and Management Policy Style

Effective policy starts by defining and establishing a policy style where there are three levels of guidance as outlined below: 1 Governing Policy, 2 Management Policy, 3 Procedures.

Governing policy – This is policy that is set by and authorized by the Board. Policy at this level is directional in nature and provides management with a framework within which management can make decisions. The policy needs to be clear on what is permissive, what is restricted and what authorities are delegated. Management must abide by governing policy and any exceptions must be supported with clear and sound rationale and submitted to the Board for explicit approval.

Management policy – This is policy that is set by and authorized by the CEO. Policy at this level sets the nature of how operations will be managed. Management policy must be aligned with and support the governing policy. It sets clear parameters for staff to operate within. Staff are expected to abide by the management policy and any exceptions must be supported with clear and sound rationale and submitted to the CEO or his/her delegate for approval.

A single governing policy may require one or more management policies to provide sufficient direction to staff.

Procedures – Procedure is set by and authorized by management as delegated by the CEO. Procedure is an outline of how management policy will be implemented. It is the means by which staff will conduct process. It can be permissive for staff to make amendments to procedure as long as the means used do not contradict governing and/or

management policy nor the organization's values and code of business conduct. A sound reason should be evident to deviate from preset procedures.

Here is an example of what this style of policy setting would look like:

Governing level policy: Employment Principles: The organization will be a fair employer.

Management level policy:

- Policy 1: Hiring Practices (could start with language like: *The organization will not discriminate on the basis of gender, race, physical disability, and age, in hiring and promotion decisions.*)
- Policy 2: Safety in the Workplace (could start with language like: *The organization will provide for a safe working environment. This includes not tolerating harassment of employees, providing for physically safe premises for all staff; ensuring workloads are appropriate, ...*)
- Policy 3: Compensation Practices (could start with language like: *The organization will adopt equal pay for equal work*).

One can imagine the procedures that are required to implement each of these management policies. Procedures would need to address items such as reasons for termination, how jobs are graded, hours of work, vacation, etc.

Frequency of Review/Update of Policies

A governing policy should be reviewed and updated at least every two years to ensure that changes in the organization and the external business environment are considered. The review should identify the amendments to the policy that are required in recognition of the changes in the business, its structure, the governance level and legislative changes.

The Suite of Policies

Each organization needs to decide the suite of policies required at the governing level in order to set the framework within which management will operate. Certain policies are needed because of the nature of products and services provided by the organization and the nature of funding, while other policies are needed to establish the desired culture of the organization, e.g. code of conduct, meeting accountabilities to stakeholders. There will be a difference in the suite of policies established for a corporate entity, from that of a not for profit organization and a government agency.

Governing policies should flow from the Board's responsibilities. The following chart provides a sample of governing policies for an organization following the Board's six key responsibilities; 1. Strategic & business planning; 2. Appoint and monitor senior management; 3. Oversee enterprise risk; 4. Integrity of organization, controls & information; 5. Communications; 6. Governance practices. The chart also presents the Board Committee that should be responsible for developing/updating and recommending the policy to the Board as well as assuming responsibility for monitoring compliance. In the chart we have assumed a

two Board Committee structure: Governance, Ethics & Human Resources Policy Committee (GEHR), Audit & Risk Committee (ARC).

Nature of Policy	Board Committee Responsible
Strategic & Business Planning • Mission, Vision, Values • Strategic, Business & Financial Planning Approach	 Board as a whole Board as a whole
Appoint, Monitor Senior Management • Executive Appointment & Performance Management • Executive Succession Planning	 GEHR GEHR
Oversee Enterprise Risk • Customer Environment Principles • Enterprise Risk Policy • Regulatory Risk • Employment Environment Principles	 Board as a whole ARC ARC GEHR
Integrity of Organization, Controls & Information • Code of Conduct • Financial Reporting Principles • Protected Reporting Line • Purchasing Policy • Investment Policy • New Business Ventures • Management Authorities	 GEHR ARC ARC ARC ARC Board as a Whole ARC
Communications • Communications Policy • Corporate Accountability Reporting • Community Development	 Board as a whole Board as a whole Board as a whole
Governance Practices • Governance Structure – Board and Committees • Director, Chair, Vice Chair Roles • Governance Protocols	 GEHR GEHR GEHR

Documenting Policy

It is important that policies be documented to provide for clarity of understanding, to establish how a policy will be monitored, and to identify who has responsibility for monitoring. Following is an outline of the structure for documenting a governing policy.

Name of Policy:

Date of Board Approval:
Date of Policy being replaced:
Date of Next Review:

Policy:
(An outline of the policy, the purpose of the policy, who/what does it apply to, when does it apply, what is it intended to do)

Authorities:
(Identify what authorities are being delegated to a Board Committee and/or to management)

Measures:
(Identify how the policy will be measured and/or monitored)

Reporting:
(Itemize the frequency by which the measures will be reported to the Board)

Governance Responsibility for Oversight:
(Identify if the Board or a particular Board Committee has responsibility for overseeing adherence to the policy)

 Management Responsibility:
(Identify the CEO's responsibility for monitoring adherence to this policy and what the CEO's primary responsibilities are with respect to the policy).

An example of a governing policy following the style and documentation format discussed above is provided as an attachment to this executive briefing.

Summary

We constantly refer to policy and procedure when fulfilling governance and management responsibilities. It is important to have clarity on what is meant by these words.

Booker & Associates promotes excellence in Corporate Governance, Risk Management and Operational Effectiveness. Since 2004, we have worked with organizations across Canada to provide solutions that lead to substantial results.

Booker & Associates provides services to support Boards in exercising good governance including governance education programs, governance coaching, Board and Director evaluation processes, governance policy writing, and strategic planning facilitation. We provide training on Enterprise Risk Management, facilitate risk workshops, and assist organizations in building risk frameworks, accountabilities, and measurements.

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This policy example is provided for reference. The policy should be amended as appropriate in relation to provincial legislation and the requirements of an individual organization.

Name of Policy: **Employment Environment Principles**

Date of Board Approval: (insert date), 2015

Date of Policy being replaced: N/A as this is a new policy

Date of Next Review: Within two years from date of Board approval noted above.

Policy

The Board of Directors (Board) of the Organization understands that its greatest asset is its employees. The Board appreciates that the success of the organization for the benefit of its stakeholders is dependent on the good work and commitment of its employees.

The Board through this governing policy provides direction on the employment environment which it desires to have in place at the organization. The employment environment is to honour the following principles:

- The Organization will be a fair employer
- The Organization will provide a safe workplace
- Staff will be treated with integrity and respect
- The staff represent a team, and contributions to the team will be appreciated and recognized
- Staff will be supported in their career development and building of skills and competencies
- Communications with employees will be open, honest and timely to keep them informed of the organization's objectives, initiatives, and operations.

The Board expects staff to be accountable to the Organization, to its stakeholders, and to fellow employees for performance of their responsibilities to the best of their ability. The Organization expects staff to understand that there is a two way relationship where the Organization's commitment to the staff member is expected to be honoured and returned by the staff member's commitment and duty of care to the Organization. The Board expects all staff to adhere to the Organization's policies as well as applicable legislative standards.

The Organization recognizes that its effectiveness is determined largely by the quality of its staff. To this end, an impartial and objective recruitment and selection process best ensures the employment of qualified and experienced personnel. All hiring is to be done on a merit basis and as such, any undue influence or preferential treatment in the hiring process is strictly prohibited. In addition, all hiring is to be done without discrimination on the basis of race, creed, colour, age, gender, sexual orientation, religion, marital status, family status, ethnic origin, ancestry, and handicap. The best candidate is hired based on the ability to meet the qualifications and requirements of the job.

All employees are required to be knowledgeable of, and adhere to the Organization's Code of Conduct. The Code provides a set of standards of conduct or behaviour expected and required of HFN employees. All employees are required to carry out their duties and responsibilities and interaction with others in a manner which promotes the values of respect, integrity, excellence, accountability and teamwork.

The Board directs that the compensation for staff will be set to allow the Organization to attract, motivate and retain personnel with the competencies and attributes required to meet the organization's strategies and business objectives. In so doing, salary ranges and benefits will be set to provide internal equity and be externally competitive with the local community and other organizations of like size and mandate as the Organization. The compensation plans must be financially affordable for the Organization in the short term and long term. The Board directs that any pay program be designed in a manner which does not encourage nor compensate any staff member for creating unacceptable risk for the Organization.

Authorities

Delegation of monitoring adherence to this policy is by the Board to the Governance, Ethics & Human Resources (GEHR) Committee.

Where a provision in this policy is inconsistent with a provision of applicable legislation, the legislative provision shall prevail.

Authority to hire staff is communicated through two complementary governing policies, Executive Appointment, Compensation & Performance Management, and Management Authorities.

Anyone violating this policy, including but not limited to the exercise of any undue influence in the hiring processes will be subject to disciplinary action up to and including dismissal. Directors and staff who become aware of any violation of this policy will be required to report such to the CEO or Chair GEHR.

Measures

Adherence to this policy will be measured through reports provided by management which provide information on the working environment for staff and staff engagement.

Reporting

Management will provide information to the Board which informs it on the aspects of this policy and enables the Board to monitor if the policy is being followed.

The following reports, as a minimum, will be provided to the Board and/or Committee:

Report	Frequency
Results of staff engagement survey with outline of process and action plans to deal with results	Every two years to GEHR Committee
Report on staff turnover, vacancies, attrition, staff demographics	Annually to GEHR Committee
Report on status of performance review process for employees and executive, development opportunities / training provided	Annually to GEHR Committee
Report on litigation relating to employment practices	As occurs to GEHR Committee
Certification from CEO and Controller regarding compliance with employment statutes and remittances of employee withholdings	Annually to GEHR Committee
Report on overall compensation program with analysis of competitiveness and affordability	Every two years to GEHR Committee
Proposed introduction of any bonus programs or substantial amendment to existing bonus programs with rationale and objectives of such programs, and any other significant compensation elements along with analysis of affordability	As occurs to GEHR Committee
Report on workplace accidents, reasons, actions taken	As occurs to GEHR Committee

Governance Responsibilities

The Board's responsibility with respect to this policy includes (conducted by the Board or delegated to a Board Committee as outlined in this policy or in the Board Committees terms of reference):

a. Approving strategic objectives with respect to employees and understanding management's tactical plans to achieve the objectives

b. Understanding the composition of the staff and successes and challenges for stability in the staff composition caused internally or externally

c. Reviewing this policy as needed but not less than every two years and identifying appropriate amendments

d. Reviewing reports from management, making enquiry and gaining assurance that this policy is being followed

e. Where sufficient assurance is not gained on any matter, provide direction to management on expectations and objectives to be fulfilled.

Management Responsibilities

The CEO is expected to develop the necessary management level policy and procedures to ensure effective implementation of this policy. This includes:

a. Establishing, periodically reviewing and updating management level policies and procedures to implement adherence to this governance policy. It is expected that these policies and procedures will address, but not be limited, to the following items: a healthy and safe workplace for employees, limitation of corporate assets to corporate use, behavior of employees aligned with the Organization's values and objectives, recruitment and selection in the hiring process including handling of complaints or appeals of hiring decisions, probation periods, maintaining position descriptions, documentation and protection of documentation relating to personnel matters.

b. Creating an organizational structure that provides for an effective working environment and which provides for effective communication and team work across the organization

c. Providing a work environment that is friendly and safe, open and transparent, and creates a positive team environment

d. Ensuring that the values of integrity and respect are shown in behaviours and actions conducted throughout the Organization by the staff

e. Ensuring that those making hiring decisions do so with integrity through appropriate delegated authority.

f. Establishing fair compensation for each position

g. Establishing a fair, honest, motivating performance management process for all staff and ensuring it is followed including ensuring that employees receive performance feedback on no less than an annual basis

h. Ensuring that the performance management system provides for evaluation of teamwork, and demonstration of respect for the Organization's values

i. Respecting the confidentiality of each employee's compensation and performance review

j. Providing a trustworthy and respectful process whereby employees can express concerns relating to employment at the Organization

k. Process for handling of breaches of the code of conduct by employees

l. Providing the Board with reports that enable it to assess whether the Organization provides for the workplace environment anticipated in this policy.

While the CEO remains ultimately responsible for the implementation and monitoring of this policy, he/she may delegate some or all of these responsibilities to other management.