# Corporate governance framework example private sector management essay

This assignment examines two key areas of organisational context; corporate governance and knowledge management. The background and definition of corporate governance is first explored before examining the corporate governance frameworks of QANTAS and the Armed Reconnaissance Helicopter Management Unit (ARHMU).

The background and definition of knowledge management is then reviewed, including the main barriers to creating effective knowledge management in a project management organisation. The assignment then examines barriers to effective knowledge management as observed by the author at the ARHMU and the author recommends five practical steps to foster effective knowledge management within the ARHMU.

Disclaimer. The opinions expressed herein contain positions and viewpoints of the author only and do not reflect on the Commonwealth Government's, DMO's or ARHMU's official position or viewpoint. It is requested that the opinions expressed in this assignment are kept assessment in confidence by UNSW.

Introduction

" A decade ago, the term ' corporate governance' was barely heard. Today, like climate change and private equity, corporate governance is a staple of everyday business language and capital markets are better for it" Eric Mayne, Chair, ASX Corporate Governance Council, August 2007

1. Successful project managers know that more than just good administration and management of a project is required. Administration,

management and delivery of a project are influenced by how an organisation and people within that organisation think and act. This can be defined as organisational context. Two important components of organisation context are corporate governance and knowledge management. By implementing corporate governance and knowledge management processes and practices, organisations and their people have a greater chance of a successful project.

## Aim and Scope

2. The aim of this assignment is to demonstrate an understanding of corporate governance and knowledge management by utilising case studies.

3. The scope of this assignment as stipulated by Wilson (2010, p15) is to:

a. Provide two examples of how the corporate governance frameworks of organisations impact on the management of projects by those organisations.

b. Identify the main barriers to creating effective knowledge management in a project management organisation.

## Corporate Governance

4. Background. Following the high profile corporate collapses in Australia (HIH insurance and One. Tel) and in the USA (Enron and WorldCom), a number of regulatory changes aimed at improving corporate governance were implemented. The US Government passed the Sarbanes-Oxley Act in 2002 which regulated boardroom accountability and granted the Securities and Exchange Commission additional power in policing corporate governance matters. (Brown and Gorgens, 2009, p1). The Australian Government approved amendments to the Corporations Act of 2001 via the

Corporate Law Economic Reform Program Act in 2004. This Act largely implements the recommendations of the Federal Treasury's Corporate Law Economic Reform Program (CLERP 9) policy paper and the HIH Royal Commission Final Report.

5. Definition and requirement. The ASX Corporate Governance Council (2007, p3) defines Corporate Governance as the " the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations." Australia is one of thirty membership countries of the Organisation for Economic Cooperation and Development (OECD). The OECD and its member have identified (OECD, 2004, p11) that corporate governance is a key element in improving economic efficiency and growth as well as enhancing investor confidence. This statement is critical in understanding the importance of corporate governance in a global free market economy, which Australia is a part of. Government has significant interest in ensuring public and private sectors adhere to good corporate governance to enhance Australia's economy and growth.

6. Principles. In addition to the legislation introduced by governments, peak international and national bodies released guidance on corporate governance. These principles are continuously updated by their sponsor organisation to ensure developing corporate governance best practices are promulgated to assist in economic growth, confidence and stability. OECD released the first edition of its Principles of Corporate Governance in 1999 to assist governments in improving corporate governance regulatory legislation and frameworks and to provide guidance to institutions, corporations and

businesses in developing corporate governance. (ODEC 2004, p11). The Australian Securities Exchange (ASX) Corporate Governance Council first released Corporate Governance Principles in 2003 to assist companies in meeting stakeholder expectations. It requires all Australian entities listed on the ASX to abide by them where appropriate to promote investor confidence. (ASX 2007, p2). Under ASX Listing Rule 4. 10. 3, companies are required to provide a statement in their annual report disclosing the extent to which they have followed the corporate governance principles in the reporting period. Where a company has not followed all the principles (and associated recommendations) the company must give reasons to why they have not followed them.

7. The six OECD and eight ASX corporate governance principles are attached at annex A and B. Research conducted by the Brown and Gorgens (2009, p15) found that in 2007, 37% of Australian companies listed on the ASX were fully compliant with the ASX principles.

8. Legal basis for Corporate Governance in Australia. The Australian Federal Treasury (1999, p19) describes Australia's corporate governance framework as a matrix of legislation, accounting standards ASX listing guidelines and voluntary self-regulatory codes of practise. The Australian Securities and Investment Commission (ASIC) is an independent statutory authority that enforces this corporate governance framework. The most recent and significant changes to legislation was in 2003 when the Australian Government Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Bill was introduced to parliament. This bill became legislation in 2004.

9. The main provisions of this bill as detailed by the Australian Parliamentary Library (Dudley 2003) were:

a. Audit Reform (audit independence, registration, obligation, oversight and standards);

b. Financial reporting (CEO/CFO declarations and reporting panel);

c. Proportionate liability;

d. Enforcement (protection of whistleblowers and disqualification of directors);

e. Executive Remuneration;

f. Continuous Disclosure; and

g. Shareholder Participation.

## Corporate Governance Framework Example – Private Sector

10. Qantas is Australia's largest domestic and international airline. The company employs approximately 35, 000 people, has a fleet of 246 passenger aircraft and offers services across a network spanning 173 destinations in 42 countries (Qantas, 2010).

11. Qantas has a Board of Directors which is responsible for ensuring that Qantas has and abides by an appropriate corporate governance structure. The Board consists of a CEO, CFO and nine independent non-executive directors who are generally elected by shareholders due to their commercial

experience, independence and judgement skills. The Board has publicly endorsed the ASX Corporate Governance Principles and endorses its own corporate governance statement annually (Qantas 2010).

12. The 2009 Qantas Corporate Governance Statement provides company executive officers, management and employees, shareholders and regulators information on how the Qantas Board of Directors intends on carrying out corporate governance. Whilst the CEO and CFO and responsible for the day to day management of Qantas, the Board is responsible for setting and reviewing the strategic direction of Qantas as well as monitoring implementation of that direction by the Executives.

13. In relation to impact on the management of projects, the Board approves the annual operating budget and also approves major acquisitions. It monitors the performance of the CEO, CFO and Executive Management team to ensure that Qantas meets it ethical, legal and financial responsibilities as detailed in the Qantas Constitution and Business Practises Document. The Business Practises Document advises Qantas employees (in particular management) on how they are to conduct business, how they are to manage risk and how to engage with stakeholders.

14. The conclusion can be drawn that Qantas is very much driven as a corporation by its adherence to a corporate governance framework. This has assisted Qantas in becoming and maintaining itself as one of the most successful airlines companies in the world.

# Corporate Governance Framework Example – Public Sector

15. The Armed Reconnaissance Helicopter (ARH) project is the six largest project dominating cash flow during 2009-2010 for the Defence Materiel Organisation (DMO) and is currently considered one of the more complex DMO projects as graphically depicted in figure 1. (Defence Annual Report 2008-2009). Australian Aerospace (AA), a subsidiary of Eurocopter, was awarded the acquisition and a 15 year Through Life Support (TLS) performance based contracts in 2001. The acquisition contract will see the delivery of 22 aircraft plus ground training devices, specialist tooling and equipment, publications and ground support equipment. The TLS contract requires AA to deliver service in four key areas:

aircraft type training (aircrew, groundcrew and technicians);

Deeper level maintenance of ARH fleet;

Engineering services (include design) to support the ARH fleet; and

Logistic services (spares, specialist tooling and publications);

Figure 1: Complexity of specific DMO projects versus average complexity in other organisations

(Defence Annual Report 2008-2009)

16. With the acquisition contract coming to an end, the Armed Reconnaissance Helicopter Project Office is transitioning into the Armed Reconnaissance Helicopter Management Unit (ARHMU). ARHMU is the DMO agency responsible for providing Corporate Governance over Australian

Aerospace’s products and services in relation to the ARH TLS contract. The organisation is depicted in figure 2 below and aligns to the services provide by AA:

Commanding Officer

Contract Manager

Engineering Manager

ILS Manager

Contract / Finance Team

Engineering Team

ILS Team

Training Manager

Training Team

Figure 2: ARHMU Organisation Chart

17. The ARHMU corporate governance framework is drawn from DMO policy. ARHMU is at the tactical level of business management and therefore executes the business processes to deliver DMO outputs and outcomes in relation to ARH (DMO 2001, p 23).

18. The Director of ARHPO (and once acquisition is complete, the ARHMU CO) is accountable and responsible to the Director General of Army Aviation

Systems Branch for the management, control and reporting of AA in delivering contracted outcomes. Key corporate governance processes undertaken by ARHMU are:

a. Recording contract performance against the contract key performance indicators;

b. Identifying and initiating reductions in cost of ownership to the Commonwealth; and

c. Undertaking engineering design acceptance activities.

19. A tool that is utilised by the ARHMU to report on AA's performance is the DMO's Company Scorecard (DMO 2007). The company scorecard is conducted bi-annually and is based on the following contract performance:

Adherence to contracted schedule of work;

Adherence to contracted cost schedules;

Technical performance on delivering a product that meets the requirement;

Development and maintenance of a healthy contract relationship;

Management of and adherence to quality systems in its business processes

20. Comparisons can be drawn between the ARHMU and Qantas Board of Directors. The AA ARH Program Director plays a similar role to the Qantas CEO. He is responsible for the day to day running of contracted services to the ARH capability; however the ARHMU is responsible for setting and

reviewing the strategic direction of the ARH capability as well as monitoring implementation of that direction by AA.

21. There is however some key differences between the two organisations. Whilst AA must comply with ARHMU direction with respect to the contract, the ARH Program Director must appease his corporate masters who have different agendas to ARHMU. ARHMU is limited in its influence on AA in that it can only govern within the confines of the contract. It certainly does not have the power to dismiss and reappoint the AA ARH Program Executive. If issues are arising that are outside the boundaries of the contract, often the DMO executive and/or government become involved. This was the case in 2007, when the DMO and AA entered into formal dispute over contract provisions. (AIR87, 2008).

## Knowledge Management

22. Figure 3 is a graphical representation of the differences between data, information, knowledge and wisdom. It can be seen that knowledge is information put into context thus allowing the individual or organisation to have a greater understanding of a particular area.

Figure 3: The four levels of understanding (Bellinger 2004)

23. Definitions. The University of South Australia (UNISA 2010) defines Knowledge Management as “ The process of systematically and actively managing and leveraging the stores of knowledge in an organisation”. Morey et al (2000, xii) define Knowledge Management as “ a discipline that promotes an integrated approach to indentifying, managing and sharing all of an enterprise’s information assets, including database, documents,

policies and procedures as well as unarticulated expertise and experience resident in individual workers.”

24. Individual and Organisational Context. Kim (1998, p 47) states that organisations learn through its individual members, and therefore is affected either directly or indirectly by individual learning. In an organisations early stage, it consists of small groups of people and has minimal structure. Therefore, the organisational learning is the individual learning. However the organisation grows, the complexity of capturing individual learning increases and the organisation must develop a system to capture this knowledge. Individual and organisational learning is graphically demonstrated by Morey et al (2000, p 265) in figure 4.

Figure 4: Collective and private nature individual’s knowledge (Morey et al 2000, p265)

25. Topics of Knowledge Management Process. Morey et al (2000, xi) states that there are three topics that are fundamental to knowledge management; strategy, process and metrics. Strategy is concerned with the motivation, outlook and structuring of a knowledge management program. Process is concerned with using knowledge management to improve current practises and hasten organisational learning. Metrics is concerned with measurements for improving the understanding and effectiveness of a knowledge management system.

26. Knowledge Mapping. The United States Agency for International Development (2003, p17) defines knowledge mapping as a process of analysing an organisation to determine who has knowledge, where the

knowledge resides and how it is disseminated. Knowledge mapping is critical for management to understand and exploit areas of improvement with respect to knowledge management inside their organisation.

## Barriers against effective knowledge management in a project

27. McLucas (2010) indentifies that barriers against effective knowledge management in a project can be grouped into either individual or organisational barriers. For an individual, barriers to new knowledge occur when accommodation becomes too challenging (McLucas 2010) and is driven by an individual’s education and training, experience, beliefs and emotional state.

28. McLucas (2010) advises that Von Krogh identified four severe barriers to knowledge management at the organisation level:

Language. The sharing of knowledge may be expressed using words that are unfamiliar with other organisational members, resulting in unsuccessful knowledge creation.

Organisational Stories. These are stories that circulate amongst organisational members describing failed attempts at implementing technology.

Procedures. Employees lack motivation to challenge ineffective procedures because they are less likely to experience negative consequences if they follow those procedures.

Company Paradigms. These become ingrained in organisations which are followed by employees.

## Fostering effective knowledge management – case study

29. In the nine months that I have been posted to the ARHMU, I have observed all four organisational barriers that have stagnated effective knowledge management within the organisation:

Language – New staff. Whilst new to the DMO, I was fortunate to have come directly from an ARH squadron. However I observed other new members with no previous ARH or DMO experience were provide with nominal training and mentoring. Most supervisors allowed their new staff to ' sink or swim' rather than foster and grow them into their new appointment.

Language – Multiple Disciplines. The ARHMU brings together the fields of project management, engineering, logistics and finance; with each field having its own unique language and practises. Each field deals with the others on a day to day basis and through this I have observed frustrations due to a lack of understanding and misunderstanding between the fields. No training has been undertaken to improve understanding of each other that would allow closer integration and cohesion of the teams.

Organisational Stories. The ARHPO has been running for 12 years and has had its fair share of project delays, overspends and conflicts with the contractor. Some staff members who have been with project during these periods of hardship are reluctant to embrace new, innovative ideas. These ideas are generally not met with any optimism due to the perception that a similar idea was attempted in the past and failed.

Procedures. The ARHMU is required to conform to a significant amount of regulations, policies and procedures due to its involvement in the highly regulated disciplines of finance, engineering and logistics. Whilst ARHMU has its own procedures, most procedures are dictated by external organisations. For example, financial practises and procedures are controlled at the DMO Executive and Defence Department. ARHMU’s Engineering Management System and Quality Management System are controlled at the Branch level. The Through Life Support contract dictates the statement of work to be provided by AA and whilst it is administered by ARHMU, contract changes require Branch approval as a minimum. As these procedures are controlled external to ARHMU, ARHMU staff have less influence in improving procedures which would benefit ARHMU. It has been observed that staff prefer to work with inefficient procedures rather than drafting and staffing a new procedure or contact change proposal due to the perception that this is the easier and less problematic option.

Company Paradigms. The Project Director and Project Executive Team drive the intent, vision and focus of their staff within their respective areas. For some time, the executive team has been consumed with areas of the project that are under scrutiny by the DMO executive, the military executive or politicians. This has resulted in some areas being exposed to reform at the cost of significant staff effort. These focus areas have been at the expense of other areas where significant efficiencies could be made however resources have been directed elsewhere. The consumption of the executive team has also reduced the flow of communication to and from staff and tarnished the strategic intent and vision of the ARHMU.

30. ARHMU executives must take urgent, practical steps to ensure individual insights make it through the whole process of knowledge creation. Great ideas, great arguments and great concepts must be embraced before individuals decide to stop contributing new ideas. If I was the Project Director, here are five practical steps I would take to foster effective knowledge management:

Provide appropriate training to new staff and assign an experienced staff member as a mentor and provide appropriate training to staff on other ARHMU disciplines.

Release a mission statement and supporting guidance statement to realign staff to the priorities of the ARHMU. Recommence the lines of communication between the executive and staff to improve staff awareness and increase staff sense of ownership.

Encourage and support innovative ideas that increase efficiency or effectiveness. Eliminate the perception that changing inefficient procedures is too complicated by introducing a simpler system of submitting, approving and promulgating new or revised procedures.

Electronically capture all significant executive decisions to demonstrate openness and integrity. These decisions can also assist staff in developing skills and provides future executives with knowledge on previous decisions (particularly important in a military environment where staff are posted every two to three years). The engineering team's existing decision recording database would be utilised as the foundation for creating an ARHMU decision database.

Creating a new position titled “ Knowledge Officer”. This new appointment would work under the Quality Manager and would require broad social and intellectual vision as well as experience in detailed business operations. They would need to connect internal and external knowledge initiatives and mobilises workers throughout the organisation to use knowledge more effectively. (McLucas, 2010).

## Linking knowledge management and corporate governance

31. The aim of corporate governance is to ensure organisational management decisions contribute to the overall efficiency and effectiveness of the organisation. However corporate governance policies and procedures can become resource intensive if managed incorrectly and inefficiently. This subsequently avoids positive knowledge creation, causing ineffective knowledge management.

32. Instead, project executives should embrace and support effective knowledge management within their organisations. An organisation which fosters effective knowledge management will improve corporate governance efficiency and effectiveness which in turn gives the organisation the competitive edge.

## Conclusion

33. This assignment reviewed the concepts of corporate governance and knowledge management. The case studies examined in this assignment demonstrated that the private and public sector place significant emphasis on corporate governance, however it would appear that knowledge management is not as well embraced.

34. Project managers must have appreciation of the impacts that effective corporate governance and knowledge management have on the successful delivery of projects. Understanding these concepts, the links between, and knowing how to strengthen these links will increase organisational effectiveness and competitive edge.

Annex A

The six OECD Principles of Corporate Governance (OECD, 2004)

1. Ensuring the Basis for an Effective Corporate Governance Framework. The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

2. The Rights of Shareholders and Key Ownership Functions. The corporate governance framework should protect and facilitate the exercise of shareholders' rights.

3. The Equitable Treatment of Shareholders. The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

4. The Role of Stakeholders in Corporate Governance. The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-

operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

5. Disclosure and Transparency. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

6. The Responsibilities of the Board. The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Annex B

## ASX Corporate Governance Council's eight Principles of Corporate Governance (ASX, 2007)

1. Lay solid foundations for management and oversight. Companies should establish and disclose the respective roles and responsibilities of board and management.

2. Structure the board to add value. Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

3. Promote ethical and responsible decision-making. Companies should actively promote ethical and responsible decision-making.

4. Safeguard integrity in financial reporting. Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

5. Make timely and balanced disclosure. Companies should promote timely and balanced disclosure of all material matters concerning the company.

6. Respect the rights of shareholders. Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

7. Recognise and manage risk. Companies should establish a sound system of risk oversight and management and internal control.

8. Remunerate fairly and responsibly. Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.