

# The Changing World of Governing Financial Institutions



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Century Park Hotel, Manila  
13 May 2009



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# GOVERNANCE

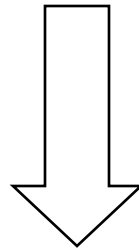
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- Governance is the system and process which controls (coordinates) an org., both through its written rules (constitution or by-laws that define objectives and codify the policies) and the people charged with making sure they are followed (UNDP Microstart).

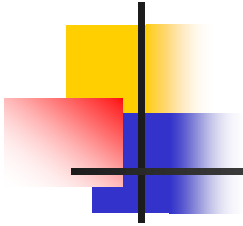


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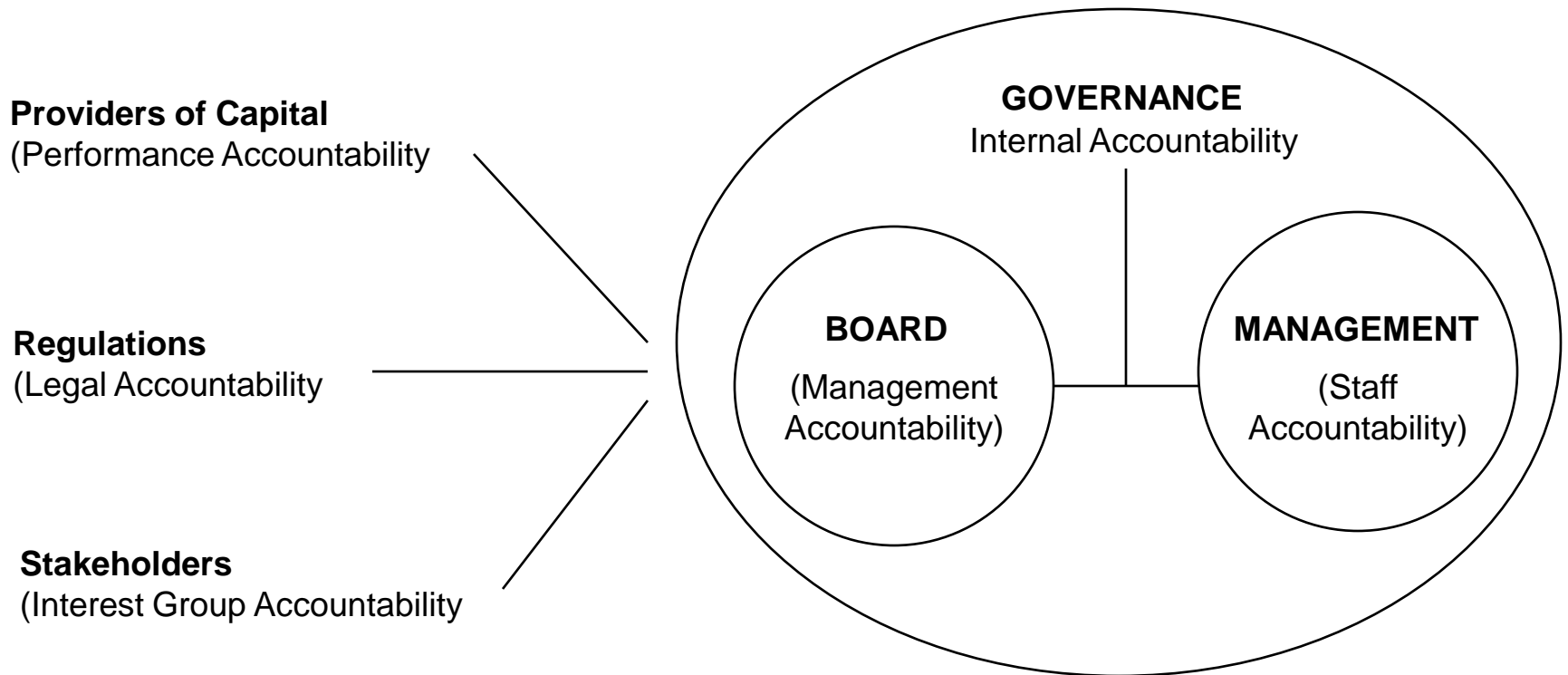
**Governance: Steer, Direct, Guide**

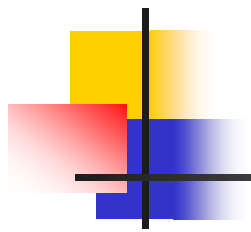


**INSTITUTION**



**Figure 1: The Context that Frames Governance**





<b>Structure</b>	<b>Regulator</b>	<b>Major Interest Group</b>
Banks	BSP	Stockholders
NGOs	SEC	Trustees
Cooperatives	CDA	Member-owners



# Critical Ingredients of Governance

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**T**ransparency

**A**ccountability

**P**rofessionalism

**S**tructure



# System vs. Human Elements

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- **Clearly defined and followed**  
Articles and By-Laws
- Codified, written and available to members
- Relevant and dynamic
- With implementing rules and regulations (manuals, etc.)



# Common Concerns Faced by Organizations

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- Mismanagement and Abuse of Authority
- Issues re Vision, Mission
  - e.g. Balancing Social Impact with Financial Objectives

# Role and Responsibilities of the BOD

## ■ Relationships Between Board and Executive

Executive	Board of Directors
Executive are individuals	Boards are legal entities and a group
Executives deploy professional Skills exclusively to one organization	Each board members has many additional commitments
Executive are compensated	Board members serve voluntarily or receive insubstantial compensation
Executive can make decisions alone	A board makes binding decisions as a group
Executive rely on staff	Board operates without staff
Executives serves at the pleasure of the board  Executives are professionals in the organization's area of activity	Boards are entities are permanent, despite director rotation  Directors most likely are not experts in the institution's area pf activity



# Role and Responsibilities of the BOD

<b>Major Area of Responsibility</b>	<b>Board Tasks</b>
Management Accountability	Identify competent managers Set clear and measurable goals Monitor performance Confront weaknesses
Strategic Planning and Policy-making	Provide input in charting strategic course Provide guidance in setting policy Provide guidance in developing and mobilizing solutions
Self-regulations	Maintain continuity Renew leadership Self-evaluate



# Boards Major Area of Responsibility

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- Management Accountability
  - Identify competent managers
  - Set clear and measurable goals
  - Monitor performance
  - Confront solutions



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- Strategic Planning and Policy Making
  - Provide input in charting strategic course
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# Boards Major Area of Responsibility

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- Self-Regulation
  - Maintain continuity
  - Renew leadership
  - Self-evaluate

# Some Necessary Conditions Needed



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- Responsibility between the board and management clearly defined
- Well-defined and regularly implemented measures of management (and board) performance
- Strong information systems and communication channels



# Duties of a Board

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- Duty of Care
- Duty of Loyalty
- Duty of Obedience

# ON A PRACTICAL NOTE



## ~~BSP CIRCULARS~~

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- 283 – DELINEATES THE POWERS, DUTIES AND RESPONSIBILITIES OF BOARD
- 296 – POWERS, QUALIFICATIONS AND DISQUALIFICATIONS OF THE BOARD  
2 INDEPENDENT DIRECTORS, FIT AND PROPER, CORPORATE GOVERNANCE SEMINARS
- 341 – SAFE AND UNSAFE BANKING PRACTICES



**DULY ACCREDITED**

**EXTERNAL AUDITOR**

- **PERFORMANCE STANDARDS  
AND MEASUREMENTS**
- **INDEPENDENT RATING  
AGENCIES**