Here's How to Create an Effective Authority Grid

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The Code of Corporate Governance requires every company to have "guidelines setting forth: (a) the matters reserved for the Board's decision and (b) clear directions to Management on matters that must be approved by the Board" and that "the material transactions that require Board approval under such guidelines should be disclosed in the company's Annual Report". (Guideline 1.5)

It is generally good corporate practice to formalise the approval authorities of the CEO, the chairman, board committees and the full board. Logically, this would be a document drafted with careful consideration of the various approvals needed, taking into account both the need for appropriate controls and decision-making efficiency.

Companies commonly document expense approvals such as who can sign cheques and so on. But it is both practical and essential to clarify the decision-making authorities for many other important matters such as long-term strategic plans, annual budgets, significant capital expenditures, hiring and firing of senior executives, issuing debt or equity capital, acquisitions and divestitures, compensation (overall compensation and that specific to individual senior executives), commitments to large contracts, extending credit, risk management and so on.

A COMPLEX DOCUMENT MADE SIMPLE

In my experience, a matrix, or what I call an authority grid, can pull an otherwise complex document together in a way that is easily understood by all who need to refer to it periodically.

In such a grid, the various approval authorities (including the CEO, chairman, various committees and full board) are set out in columns across the top of the page. The matters for approval are listed in the first column to form a grid which is then completed for each decision required.

For example, if hiring the CEO's direct-reports requires the chairman's approval upon the recommendation of the CEO, then the "CEO" box would be notated "recommend", while the "chairman" box would say "approve". Similarly, if hiring certain key executives, such as the CFO, requires the approval of the Nominating Committee on the recommendation of the CEO, then the "Nominating Committee" box would say "approve".

An effective authority grid could be further nuanced using the concepts of "endorse" and "concur" in addition to "recommend" and "approve". "Recommend" clarifies which party should present the original proposal for approval. "Endorse" is used when an

intermediate level reviews the proposal according to its particular expertise, but a still higher-level approval is required. Finally, "concur" requires the acquiescence of a level above the approver before a proposal can be executed, effectively giving the one who has to "concur" veto authority while the approver is accountable for approving the proposal.

To illustrate these nuances, the board might, for flexibility, delegate the authority for any capital expenditure up to 5 per cent above the annual budget to the CEO, but still require the chairman to "concur" before any proposal can be executed. Another example could be that the CEO's compensation is to be "recommended" by the chairman and "endorsed" by the Remuneration Committee before being "approved" by the board.

An effective authority grid would also have a last column for reporting requirements. For instance, the CEO could be given the authority to hire senior executives two rungs below him or her with a quarterly reporting requirement to the chairman and the Nominating Committee. In this case, the "reporting" column would stipulate "quarterly to chairman and Nominating Committee". This ensures that appropriate levels of the board are kept informed periodically so that they may intervene if necessary.

A LIVING DOCUMENT

It is important that any authority grid should be a living document amended from time to time, logically with the board's final approval, as circumstances warrant. The authority to change the grid should be made explicit as part of the grid itself.

Pulling together an effective authority grid the first time can be daunting. It takes time to think through all the approvals necessary to run any organisation, particularly a large and complex one. But

putting in the effort upfront can, and should, avoid confusion and potentially serious conflict in the long run. Making decisions that do not include those parties who deem it their right to be engaged in the process, or to be kept informed, can build up levels of resentment that can seriously undermine morale.

One final point is that formal authority grids should be shared widely with senior managers and all board members. All the details need not be disclosed in the annual report, but it is important that precisely which parties can decide what – so as to move a proposal along – is widely understood within the organisation and the board. Again, efficiency in decision-making is as important as ensuring appropriate controls are in place. ■