What is Corporate Governance and Why is it Necessary?

Presenting by: Dr. Sinan Abduulah Harjan

Learning Objectives

At the end of this programme, participants should be able to do the following:

1- . Identify the basis of corporate governance

2- Describe the importance of corporate governance in a firm

3- Distinguish corporate governance from corporate management

4- understand the relationship between the corporate governance and countries’ development

What is Corporate Governance ?

Corporate Governance refers to the structures & processes for the efficient & proper direction & control of companies (both private and public) in the interest of all stakeholders.

Effective management of relationships among

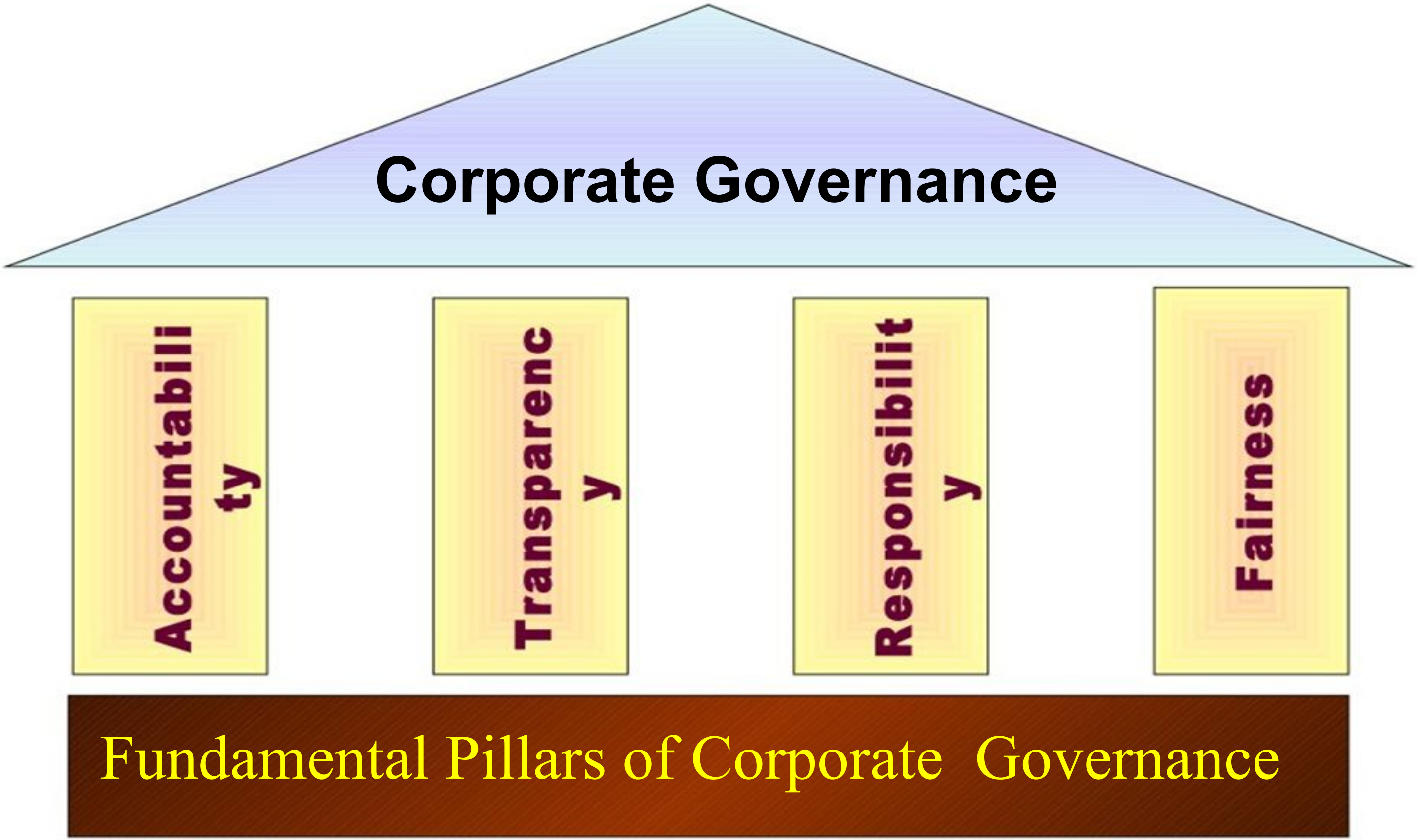
- Shareholders
- Managers
- Board of directors
- employees
- Customers
- Creditors
- Suppliers
- community

Why Corporate Governance Matters

- Enhances performance of companies and sustainability
- Lower costs of capital - interest rates on loans
- Better access to external finance
- Provides a barrier to corrupt dealings- limiting discretionary decision making, increasing oversight, introducing Codes of Ethics etc
- Impacts on the society as a whole:
- Better companies, Better societies

Principles of Corporate Governance

- **Sustainable development of all stakeholders-** to ensure growth of all individuals associated with or effected by the enterprise on sustainable basis
- **Effective management and distribution of wealth -** to ensure that enterprise creates maximum wealth and judiciously uses the wealth so created for providing maximum benefits to all stakeholders and enhancing its wealth creation capabilities to maintain sustainability
- **Discharge of social responsibility-** to ensure that enterprise is acceptable to the society in which it is functioning
- **Application of best management practices-** to ensure excellence in functioning of enterprise and optimum creation of wealth on sustainable basis
- **Compliance of law in letter & spirit-** to ensure value enhancement for all stakeholders guaranteed by the law for maintaining socio-economic balance
- **Adherence to ethical standards-** to ensure integrity, transparency, independence and accountability in dealings with all stakeholders


Corporate Governance
Accountabili
ty
Transparenc
y
Responsibilit
y
Fairness
Fundamental Pillars of Corporate Governance

Accountability

- Ensure that management is accountable to the Board

- Ensure that the Board is accountable to shareholders

Fairness

Protect Shareholders rights

Treat all shareholders including minorities, equitably

Provide effective redress for violations

Transparency

Ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and corporate governance

Independence

Procedures and structures are in place so as to minimise, or avoid completely conflicts of interest

Independent Directors and Advisers i.e. free from the influence of others

Elements of Corporate Governance

Good Board practices

Control Environment

Transparent disclosure

Well-defined shareholder rights

Board commitment

Good Board Practices

Clearly defined roles and authorities

Duties and responsibilities of Directors understood

Board is well structured

Appropriate composition and mix of skills

Good Board procedures

Appropriate Board procedures

Director Remuneration in line with best practice

Board self-evaluation and training conducted

Control Environment

Internal control procedures

Risk management framework present

Disaster recovery systems in place

Media management techniques in use

Business continuity procedures in place

Independent external auditor conducts audits

Independent audit committee established

- Management Information systems established
- Compliance Function established

Transparent Disclosure

Financial Information disclosed

Non-Financial Information disclosed

Financials prepared according to International Financial Reporting Standards (IFRS)

Companies Registry filings up to date

High-Quality annual report published

Web-based disclosure

Well-Defined Shareholder Rights

Minority shareholder rights formalised

Well-organised shareholder meetings conducted

Policy on related party transactions

Policy on extraordinary transactions

Clearly defined and explicit dividend policy

Board Commitment

- The Board discusses corporate governance issues and has created a corporate governance committee
- The company has a corporate governance champion
- A corporate governance improvement plan has been created
- Appropriate resources are committed to corporate governance initiatives

Board Commitment

- Policies and procedures have been formalised and distributed to relevant staff
- A corporate governance code has been developed
- A code of ethics has been developed
- The company is recognised as a corporate governance leader

Other Entities

Corporate Governance applies to all types of organisations not just companies in the private sector but also in the not for profit and public sectors

Examples are NGOs, schools, hospitals, pension funds, state-owned enterprises

Good Corporate Governance and Good Public Governance are complementary

“ The proper governance of companies will become as crucial to the world economy as the proper governing of countries”.

James Wolfensohn President of WB, 1999

Corporate Governance- Channel of Growth & Development

Increases access to external financing leading to larger investment, high growth & creation of more jobs

Better allocation of resources

Better management creating wealth

Reduces the risk of financial crisis

Better relationship with all stakeholders

Good Corporate Governance, Good Government & Good Business go hand in hand

Good Governance by Host Country

Good Governance by Private Sector

Good Governance by Investment Promotion Agencies

Good Governance by Investors

Recommendations

Continued advocacy on the benefits of Corporate Governance

Codes of Corporate Governance for countries

Capacity building

Sourcing of funds to support Corporate Governance development.

Every institution , every stakeholder should provide input into the corporate governance agenda

Conclusion

If a country does not have a reputation for strong corporate governance practice, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country- regardless of how steadfast a particular company's practices may be- suffer the consequences. Markets exist by the grace of investors. And it is today's more empowered investors that will determine which companies and markets will stand the test of time and endure the weight of greater competition. It serves us well to remember that no market has a divine right to investors' capital