

CORPORATE GOVERNANCE

By:

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Why Should We Report on Corporate Governance?

- ▶ An active and informed media is essential in helping small investors and other affected stakeholders make informed decisions about corporations.
- ▶ Good governance is a fundamental element of a democratic society.
- ▶ The media sector provides oversight and strengthens a democratic system.

Management vs. Governance

Management deals with daily operations, while

Governance is about the underlying ethics of a corporation.

Poor management can affect governance

➡ Weak governance undermines the financial and operational performance of a corporation

➡ Weak governance affects investors' faith in the company.

Corporate Governance

Structure of decision-making

Business Ethics

Guide for behavior

CORE VALUES

Transparency

Fairness

Accountability

Responsibility

P/3

Why does Ethical Behavior Matter?

- Ethical business practices increase the ability to keep existing customers and gain new ones
- Positive impact on employees
- Attracts foreign and domestic investment
- Improves the image of the company to the public
- Shows a commitment to playing a positive role in society and being a good corporate citizen

Corporate Governance as an Antidote to Corruption

Effective corporate governance means that:

- Transparency values are present
- Investors receive timely and relevant information
- Decision-making is not done behind closed doors
- Decision-makers are held accountable for their actions
- Managers act in the interest of a company

Corporate Governance as an Antidote to Corruption (Contd.)

Effective corporate governance makes it hard for companies to provide bribes or other company resources to government officials in exchange for services.

Family Firms Dilemma

- Owners and managers in family firms are the same – so is corporate governance still relevant?
 - Need access to new capital
 - Prepare for succession planning
 - Transparency in decision-making
 - Improve company image in the community
 - Ensure legal compliance with the laws
 - Confront corruption

Family Firms Dilemma (Contd.)

- Separate family and company relationships
- Address differing interests of among family members (some want dividends, others want to reinvest profit)
- Create well-understood and concrete governance policies for the company
- Create a strategy to handle growth of company

What is required of companies?

Find out what information the company has actually submitted and ask the following questions:

- Are the reports accurate?
- Are the reports adequate?
- How easy is it for shareholders to access information?
- What is the company's attitude toward shareholders and other stakeholders?

Elements of a Good Story

It is essential that every corporate governance story includes the basic elements of good journalism:

- Factual and accurate information
- Credible sources
- Jargon-free language
- Balance and fairness
- Time frame
- Context & background
- Implications & relevance
- The 'so what' angle

Why Corporate Governance is important?

- Proliferation of financial scandals and crisis
- Loss of trust of investors
- Globalization lead to increasing cross-border investment opportunities but investors may not have knowledge about the regulatory framework of overseas investees.
- Investors are not willing to invest in countries/companies that are corrupt, prone to fraud, poorly managed and lacking sufficient protection for investors' rights
- Securities and company law protection may help, but not enough
- Corporate Governance supplements the legal framework

Corporate Governance also plays an important role in maintaining corporate integrity and managing the risk of corporate fraud, combating against management misconduct and corruption

The OECD Principles of Corporate Governance

1. Ensuring the basis for an effective corporate governance framework
2. The rights of shareholders and key ownership functions
3. The equitable treatment of shareholders
4. The role of stakeholders in corporate governance
5. Disclosure and transparency
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.

Board of Directors

- Assume responsibility of leadership and control of the corporate
- Direct and supervise the corporate's affairs
- Make decisions in the interests of the corporate

Chairman and CEO

- Segregation of the management of the board and the day-to-day management of the corporate's business
- Balance of power at board level to avoid concentration of power in a single individual

Chairman

- Provide leadership for the board
- Ensure the board works effectively and discharges its responsibilities
- Ensure good corporate governance practices and procedures are in place
- Ensure all directors are properly briefed on issues arising at board meeting
- Responsible for ensuring appropriate information received by directors

Chairman (Contd.)

- Encourage full and active contribution to the board's affair
- Ensure effective communication between board and the shareholders
- Hold annual meetings with non-executive directors
- Ensure constructive relationships between executive and non-executive directors

Board Composition

- Balance of skills and experiences
- Balanced composition of executive and non-executive directors
- Non-executive directors should be of sufficient calibre
- Independent non-executive directors should be expressly identified
- List of directors updated and their respective role and function identified

Appointment, Re-election and Removal of Directors

- Specific term for non-executive directors
- All directors subject to retirement by rotation at regular interval
- Nomination committee formed to make recommendation on appointment of directors and succession planning for directors, chairman and CEO

Responsibilities of Directors

- Keep abreast of the responsibilities as a director
- Exercise duties of care, skill, integrity and diligence expected
- Ensure proper understanding of the operation, business and the regulatory requirement
- Contribute sufficient time and resources to serve the corporate
- Attend AGMs to share the views of shareholders

Non-executive Directors

- Active participation in board meetings
- Bring in independent judgment
- Take lead if conflict of interest arise
- Serve on committees
- Monitor the corporate's performance in achieving pre-set goals

Information Access by Directors

Directors should be provided with accurate and appropriate information in order to make informed decision and to discharge their responsibilities

- Agenda and board papers should be sent in full in a timely manner to directors
- Information supplied must be complete and reliable
- Directors should have access to the senior management for information
- Information supplied should be of form and quality to facilitate informed decision

Remuneration Committee

- Remuneration committee to be formed, mainly from non-executive directors
- Consult Chairman/CEO if needed
- Access to professional advice, market comparable information
- Make recommendation on policy and structure of remuneration
- Determine specific remuneration packages of all executive directors and senior management

Remuneration Committee (Contd.)

- Review and approve performance-based remuneration
- Review and approve compensation arrangement in connection with loss or termination of office, dismissal or removal of directors for misconduct

Accountability and Audit – Financial Reporting

- Management provide explanation and information to the board to enable them to make informed assessment of financial and other information
- The board should present comprehensive assessment of the corporate's performance, position and prospects in annual and interim reports, price-sensitive announcements and other financial disclosures

Accountability and Audit – Internal Control

- Ensure the maintenance of sound and effective internal controls to safeguard assets
- Conduct regular reviews of the effectiveness of the internal control system, covering financial, operational, compliance and risk management control functions
- Prevent fraud, corruption, and malpractices

Audit Committee

- Have clear terms of reference
- A formal and transparent arrangement to apply the financial reporting and internal control principles and maintain appropriate relationship with external auditors
- Full minutes of audit committee to be kept
- Provided with sufficient resources to discharge its duties
- Independent from external auditors
- Make recommendation for appointment and removal of external auditors
- Monitor the effectiveness of the audit process, ensuring auditor's independence and objectivity
- Monitor the integrity of the financial disclosures
- Oversight of the financial reporting and internal control procedures

Delegation by the Board

- Formal schedule of matters specifically reserved to the board for decision
- Clear directions to management as to matters requiring board approval before decision made
- Clear directions to the delegation of the management and administration functions as well as the powers of management
- Review the arrangement for segregation of duties between board and management regularly
- Board Committee to be formed, with specific terms of reference, as needed

Communication with Shareholders

- Effective Communication

- Maintain on-going dialogue with shareholders and make use of annual general meetings or other general meetings to communicate with shareholders
- Transparency in corporate governance practices and business performances through proper and adequate disclosures
- Encourage shareholders' participation

Communication with Shareholders

- Effective Communication (Contd.)

- Separate resolution for each separate issue
- Chairman of the board and chairman of each board committees be present in general meetings to answer questions at any general meeting
- Chairman of independent board committee be present to answer any questions in any general meeting to approve transaction requiring independent shareholders' approval

Communication with Shareholders

- Voting by Poll

- Inform shareholders about procedure for voting by poll
- Ensure proper compliance to regulatory requirement about voting by poll