Creating a Corporate Governance Culture

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Corporate Governance?

Management is about running the business, corporate governance is about seeing that it is being run properly. All companies need managing and governing.
Corporate governance
More Specifically!

- Relationship among stakeholders that is used to determine and control the strategic direction and performance of organizations
- Concerned with identifying ways to ensure that strategic decisions are made effectively
- Used in corporations to establish order between the firm’s owners and its top-level managers
Corporate Governance - Pillars

Accountability
Fairness
Transparency
Independence
Accountability

- Ensure the management is accountable to the board.

- Board is accountable to shareholders (hence need to be independent of management). Boards are also responsible for relations with other stakeholders.
Fairness

- Protect shareholders right
- Treat all share holders including minorities, equitably.
- Treat all stakeholders fairly.
- Provide effective redress for grievances.
Transparency

- Ensure timely disclosure of:
  - All material matters
  - Financial statement
  - Related party transactions
  - Institutional Integrity
Independence

- Procedures and structures are in place so as to minimize, or avoid conflict of interest.
- Independent Directors and Advisors.
- Roles of Chairman & CEO
- Role of Audit Committee
Mapping a Corporate Governance System

Internal

Shareholder

Board of Directors

Management

Core functions

Appoints and monitors

Reports to

External

Private

Stakeholders

Regulatory

Standards
(for example, accounting and auditing)

Laws and regulations

Financial Sector
- Debt
- Equity

Markets
- Competitive factor
- And product markets
- Foreign direct investment
- Corporate control

Reputational Agents
- Accountants
- Lawyers
- Credit rating
- Investment bankers
- Financial media
- Investment advisors
- Corporate governance analysis
Corporate Governance
Compliance

Gradual
Evolution
Good Governance....

Milestones

According to OECD principles:

- Ensuring the basis for an effective corporate governance framework
- The rights of shareholders and key ownership functions.
- The Equitable Treatment of shareholders
- The Role of Stakeholders in Corporate Governance.
- Disclosure and Transparency
- The Responsibilities of the Board
Comparison of roles and responsibilities in practice

Management

- Develops/recommends strategic direction
- Develops/recommends business plans and budgets
- Carries out corporate activities to achieve corporate strategy and business plan

Board of Directors

- Approves strategic direction
- Approves business plans and budgets
- Monitors and guides managerial performance.
Remember to Foster Complementation

- Mgmt cannot run the company w/o corporate strategy. But:
  - Mgmt. may help formulate corporate strategy; &
  - Mgmt should take ownership over the final strategy.
- Mgmt. then runs the company by delegated authority. Yet:
  - Has autonomy, independence & real authority;
  - Takes initiatives & deploys resources to pursue objectives; &
  - Is justified in expecting rewards.
- In list of this authority, mgmt. has a set of duties. Notably:
  - The duty of care (e.g. to provide accurate & timely reports); &
  - The duty of loyalty (e.g. to avoid conflicts of interests)
And Cooperation

“Mutual support and close cooperation between the board and mgmt. remains key to good corporate governance and performance”.
Qualification of Directors

- Director should possess a variety of knowledge and experiences while being a professional with an ethical mind.
- Director should fully understand his obligations and practices with a commitment to create long-term values to the business and shareholders.
- Director should have enough time to perform his duties effectively.
- Director should be able to assess himself and is ready to notify the Board of Directors upon change or if there is anything that prevents him from performing his job effectively.
Defining and Understanding the Board’s Role and Responsibilities

- Duty of Care
- Access to Information
- Duty of loyalty
- Confidentiality
Liabilities

- Directors commit an offence if Companies Act duties are breached.

- A Director may be personally liable if involved in the infringement in ways which go beyond the exercise of constitutional control.
Liabilities

- Remedies for breach of directors’ duties include:
  - Company may sue for damages or return of specific property
  - May have to forfeit any profits made
  - Company may avoid contracts director signed
  - May be personally liable for debts if company’s business carried out with intent to defraud
CORPORATE GOVERNANCE FRAMEWORK

- Defining Governance Roles
- Continuing Improvement
- Improving Board Processes
- Key Board Functions
Key Indicators for Corporate Governance Framework

- Role of the Board
- Board Structure
- Role of Individual Directors
- Role of the Chairman
- Role of the Company Secretary
- Role of the CEO

- Board Meetings
- Board Meeting Agenda
- Board Papers
- Board Minutes
- The Board Calendar
- Committees

- Director Protection
- Board Evaluation
- Director Development
- Director Selection and Induction

- Strategy Formulation
- Service/Advice/Contacts
- Monitoring
- Compliance
- Risk Management
- CEO Evaluation
- Delegation of Authority
CIPE Strategy for Corporate Governance Reform

- Initial Assessment
  - Assess corporate governance failures, challenges, opportunities, etc.
  - Rate country standards vs. international best practices
  - OECD principles/guidelines and local realities.

- Outreach and Education
  - Identify stakeholders
  - Build awareness: business leaders, policymakers, society
  - Create broader public demand for reform
  - Public Education campaigns.
CIPE Strategy for Corporate Governance Reform (Contd..)

- Develop and Institute Corporate Governance Mechanism
  - Develop corporate governance codes and internal control mechanisms
  - Foster shareholder activism
  - Improve regulatory governance networks including regulatory bodies, business leaders and organizations and other civil society groups
- Capacity-Building, Enforcement, and Follow up
  - Training and certification programs for managers and directors.
  - Establishment of Institutes of Directors
  - Create corporate governance rating systems for investors
  - Training for financial Intermediaries
  - Broader legal and institutional enforcement: ex. Judicial systems
Principle of Corporate Governance in accordance with Islam
Accountability

- The Holy Prophet (peace be upon him) says:
  
  “Each one of you is a guardian and each guardian is accountable to every thing under his care”
Transparency

- The concept of transparency has been divulged by Allah in the following ayat:
  
  “O ye who believe! When you deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties.”

  (Al-Baqrah: 282)
Responsibility

- The Concept of trustworthiness stated in surah Al-Anfal (verse 27):
  
  “O ye who believe! Betray not the truth of Allah and the Messenger, nor misappropriate knowingly things entrusted to you.”
Fairness

- Islam implants collective decision – making, tolerance, civil and political liberty, and resolve it.

  “It is part of the Mercy of Allah that thou dost deal gently with them. Wert thou severe of harsh-hearted, they would have broken away from about thee: so pass over (their faults), and ask for (Allah’s) forgiveness for them; and consult them in affairs (of moment). Then, when thou hast taken a decision put thy trust in Allah. For Allah loves those who put their trust (in Him).” (Al Imran: 159)
Thank you for your time

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