How to Apply Corporate Governance to Organizations

Author: Milton Jack . March 2020

At a time when global businesses face a higher degree of regulation and accountability than ever, corporate boards are confronted with the issues of governance and how best to improve the level and consistency of regulatory compliance. While improved compliance is necessary for the protection and enhancement of public and shareholder confidence, it has led to the prevailing assumption that a more independent and engaged international board is the prescription for all the ails of today's corporations. While this may be true in some cases, new research reveals that corporate governance standards cannot be consistently applied to different structures; one size does not "fit all."

The research suggests that the appropriate style of corporate governance in any business is a strategic consideration directly influenced by its relative position in the corporate lifecycle. Simply stated, different sets of governance practices are associated with distinct measures of business performance. Corporations need to actively consider their strategic priorities before adopting corporate governance reforms and corporate strategies that enhance both business performance and governance effectiveness.

Improving regulatory compliance is one of the most important obligations of today's boards. But as we move through the early stages of change in today's corporate and business culture, it is clear that the effectiveness of corporate boards will not be measured simply by a regulatory checklist, but by the ability of institutional investors to see evidence of proactive corporate initiatives that improve business performance. Governance management programs, designed to actively seek such improvements by regularly monitoring and refining corporate governance practices in key industry trends, best practices, and shareholders' interests, can give boards an effective means by which to help direct and sponsor enduring improvements in both business and compliance performance measures.

The differences in business operating environments and the economies of every country make it hard for the adoption of a universal framework world all over. Each country has different forces impacting its economies and subsequently, it's business operating environment (Coyle, 2003). Thus this lack of uniformity among countries means that each country has a corporate governance framework that is contextual and applicable to it only (Coyle, 2003). Therefore this variation makes it impossible to have a corporate governance framework that is a one size fit all.

The presence of diversity amongst companies has crucial implications for research in corporate governance. An index that identifies better-governed companies by analyzing adherence to governance provision(s) discards relevant information and imposes a one-size-fits-all framework on what is expected from companies. This aspect is further complicated by the existence of heterogeneous corporate structures, which are left unexplained by more standard models. Not recognizing the existence of heterogeneity among firms by de facto imposing one-size-fits-all approaches would raise efficiency issues.

Also, organizations vary in size. Some are small, others medium and others are large and have a presence in more than one country (King, 2006). This, therefore, makes a one size fit all corporate governance framework a challenge as it would not align with the needs of an organization or recommend things that are out of context and not applicable maybe to a small organization (King & Lessidrenska, 2009). Thus organizations come up with corporate governance frameworks that are unique and suitable to their individual needs. Thus a one size fits all corporate framework is not possible.

More so, organizational culture is another factor that inhibits the adoption of a universal framework. Most, if not all organizations have cultures that are unique to them and them only (Collier, 2000). Thus there is the prioritization of certain values for example issues to do with conformity as seen in Japanese organizations, issues to do with creativity as observed in American organizations (Collier, 2000). These variations, therefore, impact the way a corporate governance framework is drafted and adopted and in the process making a universal approach irrelevant because of underlying cultural differences.

Moreover, legality has an impact on the variation of corporate governance frameworks. Under this, we have issues to do with communication and reporting (Singh, 2005). In some countries, corporates are required by law to disclose adequate, accurate and timely information and also to assist investors to make an informed decision regarding ownership, acquisition, and sale of shares (Singh, 2005). This is the case in most developed countries such as the United States of America, the UK, and Japan. However, in some countries, this is neither required nor enforced (Singh, 2005). A good example is that of most third world countries that are still developing and still yet to adopt international standards. So, in the end, the adoption of a universal corporate governance framework becomes a challenge due to these differences.

However, on the other hand, those that are pro one size fit corporate governance have their reasons for calling for the universal adoption.

The major point that backs the call for a universalistic approach to corporate governance framework is globalization. The world has become a global village and within this context there has emanated international standards in the ways things are conducted, there is now the call for ease of doing business and there a now organizations that are known as multinational companies (MNC's) (Dube, 2008). The international standards and their adoption set a universal standard that is acceptable making it universal (Dube, 2008). The existence of MNC's calls for uniformity so as not to differentiate goods and services provided with the region and this calls for the ease of doing business. Thus the thinking is that if the world is now one huge market place why not adopt a size fit corporate governance framework that can be used world all over, be it you are in America, Africa or Asia. The standard should be the same.

In conclusion, there is yet no consensus as to what system of corporate law is the best one and whether legal convergence should be encouraged on a global level. It is important to note that corporate governance must adapt to fit its ever-changing environment. Certain combinations of governance mechanisms may work for certain periods. Change, however, will inevitably occur. When it does, how well a country's or organizational corporate governance system adapts to its changing environment, not how well it adheres to any particular model, will determine its success. The convergence debate overlooks this point. It assumes the opposite. This discussion has shown that the adoption of a one size fits all governance framework debate observes little and obscures much. Thus corporate governance frameworks should be tailor-made to fit the context in which they are to be adopted.

Milton Jack is a Business Consultant at Industrial Psychology Consultants (Pvt) Ltd, a business management and human resources consulting firm.

LinkedIn: linkedin.com/in/milton-jack-9798b966

Phone: +263 242 481946-48/481950

Mobile: +263 774 730 913

Email: milton@ipcconsultants.com

Main Website: www.ipcconsultants.com

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