Corporate governance: Everything you need to know

Author: Milton Jack . September 2021

There is no universal approach to corporate governance and no prescription or support of any particular option, so boards, management, and shareholders are free to make their own decisions. As a result, each organisation should utilise these principles as a starting point for developing structures, procedures, and processes tailored to its requirements and circumstances.

The first step in establishing corporate governance is to distinguish governance from corporate or firm. The common definition of governance is "the process of guiding and controlling an entity's actions and affairs". The Latin verb "gubanare," which means "to guide," is the source of the term "governance". To put it simply, governance uses powers and actions to help an organisation accomplish its objectives (Youmatter, 2020).

A legal fiction is a corporation or organisational entity, whether private or public, or a statutory authority. It is a legal definition of a person. Once created, a corporation becomes a corporate citizen with its own life separate from its owners. Directors are those who oversee and govern a company's operations (Youmatter, 2020). They are typically elected by the company's owners, shareholders in private and public corporations, or by the Government or line Minister in parastatal entities.

Organisational entities include schools, charities, athletic organisations, state-owned companies, trust groups of individuals, incorporated corporations like firms, and international organisations like the United Nations, World Bank, and International Monetary Fund.

What is Corporate Governance?

"An internal system comprising rules, procedures, and people that directs and controls management operations with excellent business sense, objectivity, responsibility, and integrity, to satisfy the demands of shareholders and other stakeholders. Gabrielle O'Donovan says sound corporate governance is based on external marketplace commitment and law and strong board culture that preserves rules and practices (2016).

The mechanism through which corporations are directed and managed is known as corporate governance. The shareholders' role in governance is to nominate the directors and auditors and elect the board of directors. Boards of directors are in charge of their companies' governance (ICAEW, 2021).

The board's tasks include establishing the firm's strategic goals, giving leadership to put them into action, overseeing the company's administration, and reporting to shareholders on their stewardship. Corporate governance, therefore, refers to what a business's board of directors performs and how it establishes the firm's values, as opposed to the day-to-day operational administration of the company by full-time executives (ICAEW, 2021).

Governance guarantees that everyone in a company follows proper and transparent decision-making procedures. All stakeholders (shareholders, managers, workers, suppliers, and consumers, among others) have their interests safeguarded (Chibarinya, 2014).

Sources of Corporate Governance

There are three sources of corporate governance (Chibarinya, 2014). These are:

- Law – common and legislation
- Best Practice Codes
- Books

1. Law

The US adopted legislation in 2002 through the Sarbanes Oxley Act, and in Zimbabwe, for example, there are statutes creating parastatals; the Public Finance Management Act Cap 22:19 (Chibarinya, 2014). Corporate governance premised on the law operates on a "comply or else" basis.

2. Codes

Most established and emerging market nations have implemented best-practice codes, such as the UK's Combined Code, Germany's Cromme Code, and South Africa's King 1, 2, and 3 Codes. Zimbabwe currently has its code, the ZIMCODE which organisations have widely adopted (Nyakurukwa, 2021). These codes are voluntary and are enforced by the owners of the legal entities. Most of them operate on the "a comply or explain" approach.

3. Books

There are books in the region that have been written to help an in-depth understanding of corporate governance principles from a practical standpoint (Nyakurukwa, 2021). Good examples are:

- The Corporate Citizen by M King (2006)
- Corporate Governance – Non-Executive Directors' Independence – Fact or fiction (2008) by C F Dube
- The "Transient Caretakers" (2008) by Mervyn King & Another

Guiding principles of corporate governance

Business Roundtable (2016) supports the following core guiding principles:

1. The board sets the precedence for ethical behaviour by determining corporate strategies to create long-term value, appoint a CEO, supervise the CEO and senior management in running the company's operations, and allocate resources for long-term growth and assess and manage risks (Business Roundatable 2016).

2. Management within the direction of the board of directors develops and implements business strategy and oversees the company's operations to produce long-term value (Business Roundatable, 2016).

3. Management generates financial statements that accurately reflect the company under the supervision of the board of directors and its audit committee. The board's audit committee keeps and manages the outside auditor's relationship, supervises the yearly financial statement audit and internal controls over financial reporting for the firm, and keeps an eye on them, risk management and compliance programs (Business Roundatable, 2016).

4. The nominating committee of the board of directors takes the lead in establishing the company's corporate governance, aims to create an engaged and diverse board of directors whose setup is essential in light of the company needs, objectives, and actively plans the board's succession (Business Roundatable, 2016).

5. The compensation committee develops an executive compensation philosophy, adopts and oversees the implementation of compensation policies. Consistent with that philosophy develops pay packages for the CEO and senior management to promote long-term value development and establishes meaningful performance-based compensation targets that support the company's objectives.

6. The board and management should consult long-term shareholders on issues and issues that are of general interest to them and influence the company's long-term value development (Business Roundatable, 2016). Shareholders who contact the board of directors or management in a way that can influence business decision-making or strategy are urged to give appropriate identifying information and take responsibility.

7. Shareholders should be aware that the board of directors must evaluate both short- and long-term uses of capital when choosing how to best deploy money for shareholder benefit and long-term value development (Business Roundatable, 2016).

8. If doing so adds directly and significantly to long-term value creation, the board may consider the interests of all of the company's stakeholders, including workers, customers, suppliers, and the community in which the business works, when making decisions (Business Roundatable, 2016).

Positive Impacts of Corporate Governance in Companies

According to an article by Youmatter (2020), the following are benefits of good corporate governance:

- Ensures that a company's management considers everyone's best interests;
- Aids businesses achieve long-term prosperity and economic growth; Maintains investor trust, allowing businesses to raise cash more efficiently and effectively.
- Has a favorable influence on stock prices since it boosts market confidence;
- Controls management and information systems better (such as security or risk management)
- Provides direction to owners and management on the company's aims and strategy;
- Reduces squandering, corruption, danger, and mismanagement;
- Helps in the development of a strong brand image.

Conclusion

Corporate governance aims to enable effective, entrepreneurial, and cautious management that will ensure the company's long-term prosperity. The goal of corporate governance is to assist in the creation of a climate of trust, transparency, and accountability that will encourage long-term investment, financial stability, and company integrity, resulting in greater growth and more inclusive societies.

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.