Corporate Governance – A general view

Shuja Rasheed

Lately, ‘Corporate Governance’ has perhaps become one of the most talked about topics around the world. Apparently a technical term, ‘Corporate Governance’ is basically synonym to a liable system of company management and supervision. Corporate governance balances the rights and responsibilities of stakeholders, such as the management, supervisory board, staff, shareholders, general public and the relationships between these groups. Consistent implementation of the principles of corporate governance brings advantages for all stakeholders. Investors benefit from improved performance in terms of the company's value.
To have a better understanding about the corporate decision-making process, let's look at the different legal roles people traditionally play in a corporation: a) shareholder, b) director, c) officer and d) employee. It may also be noted here that in a small corporation one or two person may hold all the roles in a corporation.

Shareholders own stock (called shares, or ownership interests) in the corporation. They have the exclusive right to make the following decisions: 1) elect and remove directors; 2) amend the articles of incorporation and bylaws; 3) approve the sale of all or substantially all of the corporate assets; 4) approve mergers and reorganizations, and 5) dissolve the corporation. In USA, state laws typically require the shareholders to hold an annual meeting, but in many states, shareholders can use a "consent action" or "consent resolution" - a document signed by all of the shareholders - instead of a meeting.

The board of directors sets policy for the corporation and makes major financial decisions. Some of the important tasks that the directors do are: 1) authorize the issuance of stock; 2) elect the corporate officers; 3) set officer and key employee salary amounts; 4) decide whether to mortgage, sell or lease real estate, and 5) approve loans to or from the corporation. While some states require directors to hold regular meetings, others allow the directors to take actions by signing a consent resolution or consent action. Directors' meetings may also be held by telephone in most states.

It is clear that the organizational structure of corporations separates the rights and duties of shareholders and directors. But for small corporations this separation isn't much of an issue because most shareholders are also directors and officers.

Officers are responsible for the day-to-day operation and management of the corporation. State laws usually require that the corporation have at least a president, a secretary and a treasurer (chief financial officer). But in most states, one person can hold all of the required offices.

The president is usually the chief operating officer (COO) of the corporation. The secretary is responsible for the corporate records. The treasurer or CFO is responsible for the corporate finances. Very often the everyday duties of CFO is delegated to a bookkeeper.

Good corporate governance is a foundation attribute for a healthy organization. It sets the tone as to how the organization operates and behaves both internally and to the market generally. A key feature of good governance is the style of leadership set by the board of directors and the high degree of co-operation that must exist between the board and the senior management team. Clearly, one of the biggest challenges is to effectively integrate the appropriate, relevant, best practice elements into a specific governance framework to meet a company's needs and circumstances. In the wake of local and global corporate collapses, public policy debate on business issues, corporate governance and the integrity of capital markets has intensified.

Lately, companies are emphasizing on full mental participation of their employees because of the resulting increase in efficiency accompanied by better products. Today, investors are accepting the fact that participation by shareowners also adds value.

Major institutional investors are shifting from trading to owning. Responsible practitioners have cautioned that fiduciary duty may also include the need to balance index fund strategies with active monitoring and "relationship investing". As permanent owners wrestle with the issues of corporate governance they are simultaneously reinventing systems of corporate monitoring and accountability. The trend is international; OECD (Organization of Economic Cooperation and Development), World Bank and International Monetary Fund, as well as many individual countries around the world are taking special measures to avoid further damages.

The movement to more democratic forms of corporate governance by empowering owners is very important. It not just creates wealth but also helps us maintaining a free society. As Robert Monks and Nell Minow, both known for their work in corporate governance, have noted that, "Corporations determine far more than any other institution the air we breathe, the quality of the water we drink, even where we live. Yet they are not accountable to anyone." In Nell Minow's words, "boards of directors are like subatomic particles-they behave differently when they are observed."

More vigilant shareowners are also more likely to be ‘socially responsible’, increasing triple bottom line returns (adding economic, environmental and social value). Actively involved owners are likely to help find solutions to many corporate challenges. Unions have been in the forefront of many recent corporate governance initiatives, such as pay watch.

In the past, Americans have tried to balance the power of big business with regulations enforced by big government. Today, many recognize that government regulation, while often necessary, is hardly efficient if not accompanied by a culture of self-policing. Considering the power corporate lobbyists hold, government control often equates to good intentions anyway. Ownership based governance is likely to reduce the corrupting influence of unaccountable power on government. At the same time, by transforming corporations into more democratic institutions, institutional investors can utilize in a better fashion the wealth-generating capacity of ‘human capital’ – the skilled and knowledgeable corporate employees.

Failure in corporate governance is a real threat to the future of every corporation. Corporate governance as an extremely important and powerful issue, which can destroy businesses in a very short time creating havoc in the overall economy of a country.