

Good Corporate Governance

Delivering

Superior Results (Performance)?

The Fundamentals

- Cadbury
- Hample
- Greenbury
- Sarbanes/Oxley
- Higgs/Smith

- The objective of all these is not to improve operating results but make them more secure (good quality earnings)
- Corporate Governance should act to keep management honest; ensure that they deliver on their promises to stakeholders, and see that compensation for so doing is appropriate
- From a review of recent scandals it would seem that in each of these cases the system of corporate governance failed on all three counts
- Debate on cause and effect – particularly the impact of obscenely large stock options – driving dishonest accounting to keep the stock price high.

Where then does Corporate Governance feature in delivering superior results/performance

- If my assertion that good Corporate Governance should make results more secure or better quality it follows that these should be more highly valued by the market
- Many would agree that more entrepreneurial flair is needed and large corporations, and yet it is just this when not controlled that can lead to significant problems. This is where good corporate governance can play a key role
- To create the environment in which it is sensible to encourage entrepreneurial flair it is absolutely essential that there be in place very robust systems and processes to control the business
- The two are not in conflict as some who seek more freedom to operate will argue. Rather robust well disciplined systems on processes are an absolute prerequisite to encouraging entrepreneurial flair. Here good governance will ensure this is the case.
- In other words at the core of all this is the culture and values of the organisation. All of which take its cue from the tone at the top. “A fish rots from the head”.

Rules vs Principles in Corporate Governance

- Strongly of the view, based on years of experience in Europe that principles based approaches rather than rules work best in Corporate Governance as well as many other things eg. Accounting
- When rules are written too prescriptively an industry which seeks to circumvent them develops. This is bad
- Rules lead to box ticking and boxes ticked do not ensure good corporate governance – values and culture do.