MBA

SSI

The Graduate School

Learning Outcomes

- Understanding Corporate Governance
- Impact of Corporate Governance on Business
- Governance & Stakeholders' Interests
- Elements of Corporate Governance
- Examples of Enron, Parmalat & Worldcom
- Integration of Corporate Governance with Strategies & Corporate Culture

What is Corporate Governance ?

Corporate Governance refers to the structures & processes for the efficient & proper direction & control of companies (both private and public) in the interest of all stakeholders.

Corporate Governance

- Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.
- Maximising Wealth while conforming to the laws and social expectations

Corporate Governance

- Relationships among various participants in determining the direction and performance of a corporation.
- Effective management of relationships among
  - Shareholders
  - Managers
  - Board of directors
  - employees
  - Customers
  - Creditors
  - Suppliers
  - community

Management vs. Governance

Management deals with daily operations, while

Governance is about the underlying ethics of a corporation.

Poor management can affect governance

→ Weak governance undermines the financial and operational performance of a corporation

→ Weak governance affects investors’ faith in the company.

Corporate Governance

Structure of decision-making

Business Ethics

Guide for behavior

CORE VALUES

Transparency

Fairness

Accountability

Responsibility

Why is it important?

- Proliferation of financial scandals and crisis
- Loss of trust of investors
- Globalisation lead to increasing cross-border investment opportunities but investors may not have knowledge about the regulatory framework of overseas investees

Corporate Governance as an Antidote to Corruption

Effective corporate governance means that:

- Transparency values are present
- Investors receive timely and relevant information
- Decision-making is not done behind closed doors
- Decision-makers are held accountable for their actions
- Managers act in the interest of a company

Why Corporate Governance?

- Better access to external finance
- Lower costs of capital – interest rates on loans
- Improved company performance – sustainability
- Higher firm valuation and share performance
- Reduced risk of corporate crisis and scandals

Four Pillars of Corporate Governance

- Accountability
- Fairness
- Transparency
- Independence

Elements of Corporate Governance

- Good Board practices
- Control Environment
- Transparent disclosure
- Well-defined shareholder rights
- Board commitment
- Well Defined Organisational Structure
- Third-Party Audits

A Few Examples

- Enron: Board of Directors & the SCANDAL

- Parmalat SpA: Calisto Tanzi's Mindless Diversification & Conflict of interests

- Worldcom & Bernie Ebbers: Acquisitions

Integration

- Corporate Strategies & Organisational Structure
- Organisational Culture!