

WHAT DOES CORPORATE GOVERNANCE MEAN?

**“If management is about running the business,
Governance is about seeing that it is run properly”**

The main components of corporate governance involve direction, executive action, supervision, and accountability. One of the great attributes of practicing good governance is that a well-governed company usually is able to attract better employees. As one of the most important assets of any company is its reputation, it is imperative that all organizations pursue the above.

The practice of good governance can be achieved by being aware of the four fundamental duties of a director; namely good faith, care, skill and diligence. These fundamental duties also should also form part of the expectations from each employee and must be built into the induction programme.

By *good faith* is meant that a director must honestly apply his / her mind and act in the best interests of the company he / she is governing. The duty of *care* involves acting with that degree of care which would be expected of a reasonable person caring for another person and his / her assets. The director has to be the keeper and guardian of the company's assets. Policies and Best Practices should include how the company assets are utilized. Acting with care also involves the honest application of mind in making a decision in regard to the enterprise side of the business. When something goes wrong, the question that will be asked is whether the leader acted with care.

In regard to the duty of *skill*, it is expected of each director that he will apply that ability in the interests of the company he represents. In making a business judgment call, therefore, a director will use his practiced ability for the benefit of the organization. *Diligence* simply means that a director should be fully informed about the process at hand in order to make and a best informed decision. Diligence also requires that a director understands the issues and the information given to him.

A useful way of distinguishing between governance, which is primarily the responsibility of the board of directors, and management as a process is to think of the interaction between the board and executive management as a circle superimposed on a hierarchical triangle of management. The board is thus the ultimate decision-making body, whilst management is a hierarchy with authority delegated downwards through the organization and accountability upwards to the chief executive

Corporate Governance has seven very distinct characteristics. These are:

Discipline: Corporate discipline is a commitment by a company's senior management to adhere to behavior that is universally recognized and accepted as correct and proper.

Transparency: Transparency is the ease with which an outsider is able to make meaningful analysis of a company's actions.

Independence: Independence is the extent to which mechanisms have been put in place to minimize or avoid potential conflicts of interest that may exist.

Accountability: Individuals or groups in a company who make decisions and take actions on specific issues need to be accountable for their decisions and actions.

Responsibility: While the board is accountable to the company, it must act responsibly towards all stakeholders of the company.

Fairness: The systems that exist within a company must be balanced, taking into account all those who have an interest in the company and its future – for instance, minority shareholders whose interests must receive consideration equal to those of the dominant shareholders.

Social Investment: A well-managed company will be aware of and respond to social issues, placing a high priority on ethical standards.

How can we adhere to good corporate governance?

- Creating systems and procedures to introduce, monitor and enforce its ethical code
- Assigning high level individuals to oversee compliance to the ethical code
- Assessing the integrity of new appointees in the selection and promotion procedures
- Exercising due care in delegating discretionary authority
- Communicating with, and train, all employees regarding enterprise values, standards and compliance procedures
- Providing safe systems for the reporting of unethical or risky behavior
- Enforcing appropriate discipline with consistency
- Responding promptly to offences and preventing re-occurrence

The practice of good governance is a journey because the directors are dealing with uncertain future events; however, every decision should be made from a foundation of intellectual honesty with the pillars of fairness, accountability, responsibility and transparency.

Source of reference: King II Report.

We consult and train on corporate governance issues.

For assistance with implementation of the above, please contact Lydia at lydia@tmsgauteng.co.za

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