Universal Corporate Governance Standards: Recommendations following the Global Financial Crisis

PROF RONALD H MYNHARDT

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CORPORATE GOVERNANCE

Corporate governance can be defined as:

the set of processes, customs, policies, laws and institutions affecting the way a company is directed, administered or controlled.

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The global financial crisis caused severe damage and casualties in the world and in the United States, which included:

- The investment banking industry,
- The US's biggest insurance company,
- The two enterprises chartered by the US government to facilitate mortgage lending,

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- the US's largest mortgage lender,
- largest savings and loan bank, and
- two of the largest commercial banks.
- In addition, other industries such as the automotive industry were also affected.

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- The global financial crisis revealed severe shortcomings in corporate governance.
- The existing standards failed to provide the checks and balances that companies need in order to cultivate sound business practices (OECD, 2011).

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The question everybody asked was,

"What caused this crisis?"

(Intosai, 2010)

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Possible reasons:

- The lack of proper corporate governance was to blame for the financial crisis (FDIC, 2009)

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The boards of directors of companies were amongst other accused that:

- they were too complacent in allowing their management and staff to engage in risky behaviour,
- adopting compensation programmes that encouraged risky behaviour,
- giving in to pressure from shareholders to exceed prior results, and
- failing to monitor the business and assess its risk profile (Lieberman, 2013).

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As a result of the statements made by Lieberman (2013), Chambers (2009) and Nisa (2009), a study was conducted amongst high-profile financial executives from around the world with the objective to:

- ascertain whether corporate governance was to blame for this failure in corporate governance and
- why it might be indeed necessary to reform global corporate governance standards.

WHAT IS HAPPENING INTERNATIONALLY?

- 106 countries out of a possible 193 (World Atlas, 2013) have some type of corporate governance framework;
- the countries with frameworks are spread around the globe, with the majority in Europe;
- the earliest codes/frameworks were published in 1995;
- the latest codes were published in 2013;

WHAT IS HAPPENING INTERNATIONALLY?

- the content and reach of these codes differ vastly, mainly in the areas of applicability and local legislation;
- the codes are mainly applicable to institutions within the borders of a particular country with little cross-border reach; and
- enforcement of these codes also differs between countries, from "comply or else" to "comply or explain" to "apply or explain".

MAIN FINDINGS

- Reduce the number of international and national organisations setting and applying rules
- Formulate of a set of universal rules and regulations
- Supervision must be risk-based
- Improve quality of implementation by the regulatory bodies
- Implement corporate governance risk management as part of the organisation’s risk management regime

RECOMMENDATIONS

- Formulate a world supervisory body focusing on corporate governance in organisations; and
- Formulate of a set of recommendations that can be used by the aforementioned supervisory body to compile a world-wide set of corporate governance standards.

WORLD SUPERVISORY BODY - ADVANTAGES

- establishing a more transparent and stable financial system;
- providing countries' financial institutions with guidance on establishing an efficient corporate governance regime;
- mitigating corporate governance risk on a global scale;
- limiting the potential for bad behaviour by instituting rules to reduce potential fraud and conflict of interest; and
- providing guidelines to stay compliant with rules, regulations and laws.

CORPORATE GOVERNANCE STANDARDS

- Ethical behaviour
- Composition of the board
- Managing stakeholders
- Committee structures for each and every risk identified
- Management structure
- Risk and compliance management
- External and internal audit

CORPORATE GOVERNANCE STANDARDS

- Liaison with supervisors and regulators
- Sustainability

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WHAT SHOULD HAPPEN NEXT?