Universal Corporate Governance Standards: Recommendations following the Global Financial Crisis

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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.
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).
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.

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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”.

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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

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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

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CORPORATE GOVERNANCE STANDARDS

- Liaison with supervisors and regulators
- Sustainability
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WHAT SHOULD HAPPEN NEXT?

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