

# Governance: A Cost or a Profit Centre

Presentation at PSX Jan 2024

# Why the heading?

- What is the essence of business? Innovation, entrepreneurship, freedom of action.
- Does this sit well with regulator control?
- One view of Corporate Governance is that it refers to the institutional framework that regulates the division and exercise of **power** in the corporation. This definition implies that individuals should not be allowed unbridled exercise of power. This view explains the tension between company management and regulator action.
- The view also is that Governance costs money and impedes freedom of action. Businesses seem to be ready to invest in corporate governance only if they need access to external funding.

# However is that the only end ?

- Whilst governance is important in creating market confidence and integrity, however putting in place governance structures will also lead to:
  - economic efficiency,
  - sustainable growth and,
  - financial stability.

# The Building Blocks of Good Corporate Governance

- A board with diversity and the requisite skills and experience which can provide leadership to the organization.
- Critical thinking, better board room debate through independent directors and separation of the position of Chief Executive and Chair person.
- Recently Toshiba Corp was delisted from the Tokyo Stock Exchange after 74 years. Why?
- ‘ it was full of yes men that do things because they think the boss wants them to do it, rather than what they think is a good idea or the right thing to do’
- ‘ everyone is moving in lock step in the direction of the bosses, and you don’t get any new ideas’.

# Board Committees to provide focus

- Audit Committee to focus on internal control, fraud prevention, related party transactions, the integrity of financial statements. Focus on financial planning and creating optimum financial structures.
- HR Committee to focus on succession planning, hiring and retention of good quality staff. Policies which are fit for purpose. Manpower planning and bench marking. Do you have the right organization structure?
- Risk Management committee to map industry risk and mitigation. Focus on creating operational efficiencies.

# Other important elements

- **Vision, mission, core values**: who are you?
- **Corporate plan and strategy**: what are the trends and what is the direction both short term and long term. Where are you going and how do you want to get there?
- **Code of business conduct and policy framework** : business behaviour. How will you conduct your business. Do you have a well defined framework which is cascaded within the organization as to who can do what or is your organization person dependent?
- **Business continuity**: Are you process driven or person driven?

# Good corporate governance supports the bottom line.

- Natura in Brazil was a successful family owned business. Its decision to do an IPO was based not on a need to attract funding but to perpetuate the company.
- Elements of CG introduced by Natura
- External Auditors
- Independent Board
- Board Committees
- Beliefs and values
- Good annual report

# Results

- Successful listing and growth in the market
- Increase in customer sales
- Increase in business collaborations
- Creation of an internal management which would take the company beyond the 'founder generation' creating a model which was not person dependent.



# The link between trust and success

- Corporate governance is an essential element in creating Trust.
- Trust is not just a feeling: it is created through actions” (Sandra Sucher HBS)

# Survey by Deloitte ( February 2023)

- Deloitte Global Board room programme surveyed 177 directors and C Suite executives across 30 countries.
- Trustworthy companies out perform their peers in market value by upto 4 times and 88% of customers will return to buy from a brand they trust.
- Employee engagement higher. 79% of employees who highly trust their employers feel more motivated.

# Recently Toshiba delisted from the Tokyo stock exchange after 74 years.

- It has been taken private by a consortium of investors. However the company will continue to operate.
- Some lessons to ponder:
  - (a) Bad corporate governance is not sustainable.
  - (b) Reputation remains a key driver of success.