Corporate Governance Principles

– The Association of Chartered Certified Accountants (UK)

This is a policy paper that outlines three core purposes of corporate governance. These are –

(i) To ensure that the board protects resources and allocates them to make planned progress towards the organization's defined purpose.

(ii) To ensure that the organization's management account appropriately to its stakeholders, and

(iii) To ensure stakeholders can and do hold boards to account.

Principles of Corporate Governance

The Association of Chartered Certified Accountants (London, UK) lays out the following principles of corporate governance that are intended to be relevant to organisations across the globe.

1. ***Boards, shareholders and stakeholders share a common understanding of purpose and scope of corporate governance*** - The board and all other stakeholders must have a clear understanding of what is meant by corporate governance. The three points mentioned earlier explains the ACCA view of the phenomenon.

2. ***Board to lead by example*** - The board of directors of the organisation must set the example of good governance through their conduct that ensures the ethical health of their organisation. Directors must act as the guardians of corporate conscience. Boards must ensure that they have appropriate procedures for monitoring the same.

3. ***Boards appropriately empower executive management and committees*** - Boards must set clear objectives and policies, appropriate structures, delegated authorities, and accountability. It must provide adequate resources and monitor management's progress towards goal achievement.

4. ***Boards must adopt the strategy of both risk and reward over time*** - Risk is a part of decision-making. Boards must ascertain and communicate the acceptable levels of risk and challenge the management when this is breached.

5. ***Boards must be balanced*** - Boards must have outside non-executive members along with the executive members. Outside members must challenge the executives in a supportive way. Board must be diverse, equipped with required capabilities and should work and decide as a team.

6. ***Executive remuneration must promote organisational performance and be transparent*** - Remuneration and rewards must be commensurate with performance. Disclosures of director and senior executive pay must be transparent.

7. ***The organization's risk management and control is objectively challenged*** - Internal

and external audit must be conducted and communicated to stakeholders for objective assessment and assurance.

8. ***Boards must account to stakeholders for their stewardship*** - Boards must work towards the organisation's success as a good steward by appropriately prioritising the interest of different stakeholders.

9. ***Stakeholders must hold boards to account*** - Owners and other stakeholders must hold the board to account for its performance, conduct and financial results.

10. ***Corporate governance must evolve and improve over time*** - Innovation and improvements must always happen in corporate governance and these must aim at evolving better governance practices.

Practical Implications

Family firms are often criticized for poor norms and weak mechanisms of corporate governance. Family firms can use the principles laid out in this paper as guidelines to develop or improve corporate governance mechanisms and conduct. Robust governance structures not only help family firms win accolades from external entities but also make internal processes robust, transparent and effective. In the long-term adoption of these principles is most likely to deliver several tangible and intangible benefits to both the business and the family.

***Source:** *Corporate Governance and Risk Management Agenda - Policy Paper (2008), The Association of Chartered Certified Accountants, London, UK.*