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Transformational Leadership in Corporate Governance

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Preface

The importance of corporate governance lies in its contribution both to business prosperity and to accountability. The emphasis on accountability has tended to obscure the Board's first responsibility that is to enhance the prosperity of the business over the time. Business prosperity cannot be commanded – people, teamwork, leadership, entrepreneurial values, experiences and skills are what really produces prosperity.

Accountability, by contrast, does require appropriate rules and regulations, in which disclosures are the most important elements. Good governance ensures that the constituencies (that is, stakeholders, funders, government) are taken fully into account with respect to their relevant interests concerning the company's businesses and activities.

Cadbury Committee

Longtime back, the Cadbury Committee – a private sector initiative – was the landmark decision in the evolution of corporate governance. The Cadbury Committee defined corporate governance as "the system by which companies are directed and controlled". Now, the directors are at the center of any discussion on corporate governance and are linked directly to the responsibility towards stakeholders.

To ensure this, a company must develop relationships relevant to its success. This, in turn, will depend on the nature of a company's business, credit providers, local communities and the government(s). It is the management's responsibility to develop the policies that addresses these issues; in doing so, they must also keep in mind the over-riding objective of preserving and enhancing the shareholders' investment over a period.

Corporate Governance

The term 'corporate governance' was not uncommonly found in American law journals and was imported from the US into the UK. It took firm roots when Sir Adrian Cadbury was asked in May 1991 to chair the committee on the financial aspects of corporate governance by the Financial Reporting Council, the London Stock Exchange, and the accounting profession. The Cadbury Committee, as it came to be called, was born out of the scandals which hit the city during the late 1980s (several of which did not actually come to light in their full horror until the early 1990s). These factors brought into being corporate governance and is now extended to India as well.

Good Corporate Governance

Good corporate governance can follow the following basic principles:

Every listed company should be headed by an effective board that will lead and control the company. It is immaterial whether the management is different from the Ownership or not, but, good corporate governance is within the threshold of Board.

There are two key tasks at the top of every public company – the running of the board and the executive responsibility of running the company's businesses. A decision to combine the roles of a Chairman and a MD/CEO into one post is the best combo.

The board should include a balance of EDs (Executive Directors) and Non-Eds (Non-Executive Directors).

The flow of information to the Board should be timely, to help discharge its duties effectively.

The mechanism of appointing new directors should be transparent.

The company's financial reports should periodically contain statements pertaining to salient disclosures, including remuneration to directors.

The board should present a balanced and comprehensible assessment for the company's position and prospects.

The board to put in place a sound system of internal control to safeguard shareholders' investment and the company's assets.

The auditors should independently report to the shareholders in accordance with the statutory and professional requirements and assure the board on the discharge of their responsibilities.

All directors should be required to submit themselves for re-election at regular intervals and at least every three years.

Audit Committee

Good corporate governance can be ensured if the audit committee does the following assigned tasks:

- Review the scope and results of the periodic audit reports and their cost effectiveness in line with the independence and objectivity of the auditors.
- Discuss with the external auditors (before the audit commences) the nature and scope of audit and other relevant matters.
- Focus particularly on a change in accounting policies and practices, compliances on various accounting standards, significant adjustment entries resulting from the audit, compliance with stock exchange and listing requirements.
- Discuss problems and reservations arising from the audit and any matter that the auditor wishes to discuss.

In Williams and another versus Natural Life Health Foods Limited and Mistlin (Court of Appeal. 1997, I.B.C.L.C. 131) December 1996, the court held that the managing director of a franchise company was liable to persons for negligence in relation to the granting of a franchise.

In 1998, the House of Lords, reversed the decision (TLR May 1, 1998) on the ground that the facts of the case did not reveal that. In this case, the plaintiff set up a health food shop in Rugby after franchise arrangements had been negotiated with Natural Life Health Foods Ltd. They decided to proceed on the basis of financial projections prepared by the company which, the judge held had been negligently prepared. Finally, the House of Lords held that the circumstances were insufficient to make the defendant personally liable, but did not disapprove of the principle that there might be circumstances that placed personal liability for negligent mis-statements. The case was, thus, a warning note.

Transformation Processes

It is rather imperative on the part of the Board (of Directors) to assimilate and understand the goals of the company and debate and discourse in internal sessions at the Board Level and sometimes at the Corporate Key Level of Top Management Members which may include geographical CEOs/Presidents/Vice-Presidents' etc., The ideas germinating therein shall require to be percolated down the line as not all things in a corporate hierarchy can be "bottom-up" as all and many to be only "Top-Down" approaches, typical of Leadership Qualities. What is the 'transformation' for and about-this question may trigger the minds of readers.

YES, there is a need for a classic understanding of the current and an immediate future nuance of corporate challenges in the midst of globalization, compliances and expansions across geographies. An adept understanding and functioning of the Board alone would enhance values to both the management and to the stakeholders.

Conclusion

The conclusion from this evidence is that directors probably ought to observe the code of ethics described in corporate governance, particularly to third parties. Training and support for management's efforts in compliances are vital. The existence and requirements of the company's policies must be drawn and explained across the employees to make them to commit with attention at appropriate times. Employees must understand the role they have to play and actually perform without any ambiguity on their respective role as per the hierarchy. Where there is turnover of employees depending on the nature of the business, compliances may be an issue for the induction of any such program. In short, the transformational dynamics must pervade and expand the vistas for better corporate governance in corporates.