Corporate governance is wide ranging in its impact - but what are the core principles that organizations need to focus on as a foundation?

The key drivers of effective corporate governance

For organizations starting out on their corporate governance journey, or looking to refresh their knowledge, knowing where to begin can be challenging. It's a broad topic and one that impacts almost every area of your business. The tasks involved in implementing high standards of governance will also vary between companies, depending on the structures you have in place and the expertise within your teams.

As an introduction though, it's useful to look at the following areas and make an honest evaluation of where your business is now, and where you need to be.

Board composition

The makeup of the board is a critical factor in implementing effective corporate governance, whatever the size of the company. Boards have a significant impact in defining the overall strategy of the organization, setting out the mission and vision, and influencing the culture and tone of the business from the top down. Excellence in the boardroom, therefore, translates reliably to excellence in the company's operations and performance, assuming you have the right board members for the job.

The board should be appropriately sized for the company, from large, formal boards of directors to smaller, informal advisory boards. For large organizations, having too few members causes issues with capacity, leaving the board unable to properly discharge its duties. Conversely, for smaller companies, overcrowding the boardroom table can result in delays in reaching a consensus. This may prevent the business from implementing the necessary changes to embed best practices.

Diversity of skills, backgrounds, experience, age and gender is critical, to ensure a healthy variety of ideas and perspectives are represented in the boardroom. This is particularly important when filling vacancies on the board.

It can be tempting to focus on candidates who are already connected with the company and the current board, but this can result in a homogenous outlook.

Casting the net wider to seek out potential appointees who will bring fresh ideas and new approaches can pay greater dividends in the long run.

An important measurement of success is how involved the board is with its duties. Without a high level of engagement, it's impossible for board members to be effective, challenge ideas, and ask the right questions.

From an organizational perspective, board engagement can be facilitated by providing proper orientation to new members, regular and informative updates, introductions to key staff, and access to relevant training and development opportunities.

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The deeper their understanding of the day-to-day operation of your business, the better your board members will be motivated to contribute to its success.

Equally, the independence of the board is a major contributor to success. The greater the majority of independent directors represented on the board, the more likely it is to avoid conflicts of interest, align with the best interests of shareholders, and provide effective monitoring and oversight.

Less independent boards, those with a majority of non-independent directors, are associated with higher levels of risk-taking or groupthink, and lower overall standards of governance.

Transparency

Setting standards to ensure the transparency and completeness of communication between an organization's board, management, and its other stakeholders is a fundamental part of corporate governance.

Making available accurate, relevant information about the performance of the company is a crucial element in attracting and retaining investment. If investors have access to the data, they need to assess risk and are confident that they have full visibility of business operations, access to capital is made much easier - most often at a lower cost.

Transparency is also crucial for other stakeholders in the business - shareholders, management, and employees, to ensure a high level of engagement at all levels, foster confidence in the stability and security of the business and empower all parties to make informed contributions. The open exchange of information between management and the board is of particular importance in ensuring effective alignment of the two main governing bodies in a company.

Many aspects of disclosure are codified and enforced by regulatory and legislative bodies, for example, standard annual reporting on performance or risk. Successful companies should however endeavor to go beyond the bare minimum, recognizing that true transparency comes from the quality, completeness, and balance of the information a business shares. The better informed all parties involved are, the greater the benefit to the business as a whole.

In practical terms, ensuring that stakeholders are kept fully apprised of company activities and performance is, nowadays, relatively simple. Organizations can easily implement web-based dashboards which display real-time data on key metrics via an engaging and visual interface, creating a self-service platform for interested parties which can be supplemented by periodic updates via email.

Shareholder relations

At the heart of good corporate governance is the protection of the rights of shareholders. It's primarily the responsibility of the board to ensure these rights are not only respected but prioritized and to empower shareholders to exercise their rights. For example, holding an

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AGM is a basic obligation of the board, but an effective board should go beyond this, actively seeking to encourage attendance, gather feedback, and adjust the format to make meetings more engaging.

In combination with the executive team, board members should regularly evaluate the company's relationship with its shareholders in terms of voting rights, approval or veto power, protections in place for minority shareholders, and policy on related-party or extraordinary transactions.

Company bylaws and operating and shareholder agreements should be reviewed periodically to ensure they are up to date and fit for purpose, and any changes or updates communicated promptly to affected parties. Beyond the immediate focus on the basic rights of shareholders, it's also vital that organizations demonstrate a commitment to their long-term interests in order to ensure their confidence.

One of the most important factors in demonstrating the sustainability of your business is providing regular reporting on your strategy and actions with regard to ESG issues, increasingly seen by shareholders as crucial to identifying opportunities and mitigating risks.

It's important to remember that this is a two-way conversation. Successful companies take on board the views and priorities of their shareholders when it comes to environmental, social, and governance issues, and use the feedback they collect to shape future strategy. Empowering shareholders to engage in this way is central to building and maintaining their trust.

The three areas discussed above are by no means an exhaustive list of factors, but they provide an excellent starting point for businesses looking to better understand governance issues and prepare to improve standards or corporate governance within their own organizations.

About the Author:

Maali Q. Khader is a highly experienced, effective, and trusted lawyer. Today she is a luminary in the corporate governance, sustainability, legal training, and advice sectors.

Maali holds a few concurrent roles, chief of which is CEO of the influential Middle East Institute of Directors (MEIoD), delivering advanced environment, social and governance (ESG) advisory and training to several prestigious organisations.

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