PRINCIPLES OF CORPORATE GOVERNANCE

There are corporate governance principles promulgated by many organizations across the globe. From the OECD; the UK Combined Code; to regulators such as the Central Bank of The Bahamas. Many, because of the nature and influence of the organization proposing, have international reach and relevance and are often cited as best practice standards.

In our practice we specialize in governance and risk and therefore these standards are always central to advice and guidance provided to clients. Fundamentally a regulated entity must at least be in compliance with the standards of its direct regulator. However there are other important considerations such as understanding the effect on economic value, ethics and creating shareholders value. In assessing the effectiveness of corporate governance we not only look at how the "box is ticked", but being aware that our clients are engaged in profit making, how economic value is gleaned for their business. This happens when there is a clear understanding that corporate governance is not just a thing to be done but rather a thing done in facilitating the management of an effective organization.

While compliance is critical we believe that alignment and orientation of these principles to business imperatives help to bring greater understanding of the strategic value and balance which should be consistently brought to bear in their implementation and execution.

THE BUSINESS ROUNDTABLE APPROACH

At **NextLevelSolutions** we believe the approach taken by the authoritative business group, the Business RoundTable. It is a great benchmark for assessing the strategic value of corporate governance requirements. Business Roundtable is an association of chief executive officers of America's leading companies. Regarding the principles it endorses, it states, "*Through our Principles of Corporate Governance, Business Roundtable has for decades provided public companies with the most modern guidance and best practices to uphold high ethical standards and deliver long-term economic value. As the corporate environment continues to evolve, a strong emphasis on effective corporate governance remains essential*". Here the focus is not on the standards but the value they hold for organization, high ethical standards and long-term economic value, both critical determinants of how well shareholders benefit from their investments. The focus is much narrower that other guidelines but practical, comprehensive and performance focused.

Using a set of principles endorsed by a profit oriented group helps us to align our thinking and anchor our efforts on delivering practical business solutions rather than responding to regulatory idealism. It forces us to ask whether our clients understand and are adequately exploiting the strategic value of its governance framework and it helps us to convey the value of having a framework that is robust and effective. "*Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community*." Often time practitioners fail their clients in losing this balance and lean deeply into the direction of regulation only. In other instance the failure is the "duty of care" anticipated by stakeholders, including regulators, in not adequately guiding the client and thereby potentially adversely affecting the interest of these stakeholders.

In this third issue of the **Risk and Regulatory Insights** we draw attention to importance of corporate governance and what are the core objectives and value of implementation. Using The Business RoundTable guidance as a benchmark, the analysis below seeks to show how generally known standards are central to the effective performance of boards;

the relationships, both internal and external; and organizational performance. Additionally, it provides straightforward practical suggestions where others tend to be much less direct. *These insights will help your organization's board and senior management to better appreciate and communicate the strategic value of effective governance.*

BUSINESS ROUNDTABLE ENDORSED PRINCIPLES OF CORPORATE GOVERNANCE	
PRINCIPLES	INSIGHTS
1. *The board approves corporate strategies that are intended to build sustainable long-term value*; selects a chief executive officer (CEO); oversees the CEO and senior management in operating the company's business, including allocating capital for long-term growth and assessing and managing risks.	*The board leads from the top, at a high level and is strategic in focus*. Even in instances where there is an arrangement where the CEO is already in place it is the board has full and total oversight of that position. *A critical understanding for the board is the final point of reference for management of risk in the business*. The CEO is always the ultimate "chief risk officer" and that position is directly accountable to the board.
2. *Management develops and implements corporate strategy and operates the company's business under the board's oversight*, with the goal of producing sustainable long-term value creation.	This points to the clear separation of the province of the board and the role of executive management but that oversight remains firmly with the board. *Strategy should not be totally decoupled from the board where it simply provides rubber standing for management plans but grounded in full understanding and agreement of what the organization wishes to achieve in the long term*.
3. "Management, under the oversight of the board and its audit committee, produces financial statements that fairly present the company's financial condition and results of operations and *makes the timely disclosures investors need to assess the financial and business soundness and risks of the company*."	While the RoundTable is public company oriented, taking greater cognizance of public disclosures etc., the principle of full and reasonable disclosures for shareholders and relevant stakeholders is enduring and applies in all realms. *It provides for the ability of these parties to fully appreciate and understand the strength of the organization and measure its performance in a balance manner*.
4. "The audit committee of the board retains and manages the relationship with the outside auditor, oversees the company's annual financial statement audit and internal controls over financial reporting, and *oversees the company's risk management and compliance programs."*	A well matured governance regime will evidence a number of board committees, one of the most important being the audit committee. In smaller organizations this committee takes on a number of functions and facilitate the independence framework for internal audit. The take away here is that *such a committee should be effective and have the capacity and competence to actively oversight risk management and compliance*.
5. "The nominating/corporate governance committee of the board plays a leadership role in shaping the corporate governance of the company, strives to build an engaged and diverse board *whose composition is appropriate in light of the company's needs and*	Especially in the private company realm this committee is often not seen but plays a critical role and should be more in play more in larger entities. *This help to ensure the quality of the board, having the right balance of experience and skillset.* One of its focus is on the sustainable

	strategy, and actively conducts succession planning for the board."	performance of the board ensuring there is always available new talent being injected with appropriate and productive continuity. This compares and contrasts with locally observes boards, especially in the public sector where there are wholesale changes with varying levels of regard for prior experience.
6.	The compensation committee of the board develops an executive compensation philosophy, adopts and oversees the implementation of compensation policies that fit within its philosophy, designs compensation packages for the CEO and senior management *to incentivize the creation of long-term value, and develops meaningful goals for performance-based compensation that support the company's long term value creation strategy.*	*This is where the board exerts its ability to align performance and compensation*. Compensation should be based on a philosophy of achievement and doing things which add shareholders value. By tying incentive schemes to the strategic objectives it sets and aligning the outcomes to benefit gained by individuals from the organization *the board has the ability to drive a highly productive culture of achievement, tied to strategy*.
7.	"*The board and management should engage with long-term shareholders on issues and concerns that are of widespread interest to them and that affect the company's long-term value creation*. Shareholders that engage with the board and management in a manner that may affect corporate decision making or strategies are encouraged to disclose appropriate identifying information and to *assume some accountability for the long-term interests of the company and its shareholders as a whole*. As part of this responsibility, *shareholders should recognize that the board must continually weigh both short-term and long-term uses of capital* when determining how to allocate it in a way that is most beneficial to shareholders and to building long-term value."	This is an area which is not evident from other standards. It provides guidance to board/shareholders interaction, how it *should be managed and the intended objective of long term value creation.* This can be instructive for local private entities where owners represent significant influence on the board and might be tempted to overuse that influence. Every I director, regardless of ownership, should defer to the authority of the collective board. *The role of shareholder differs from that of a director and these provinces should be respected and coordinated for corporate gain*. Conversely, in similar circumstances as described above, the board must understand its responsibility to shareholders. *There exist an agency arrangement wherein the board provides oversight on behalf of the shareholders as an agent*. As an agent, a clear obligation to the board (principal) is always in play.
8.	"*In making decisions, the board may consider the interests of all of the company's constituencies*, including stakeholders such as employees, customers, suppliers and the community in which the company does business, when doing so contributes in a direct and meaningful way to building long-term value creation."	The interest of an organization extends beyond shareholder to other important constituencies. The central essence of corporate social responsibility guides the idea that it's not only important for a company to positively engage the community, for example, *but it does so understanding the value it holds for achieving the strategic objectives of the company*.