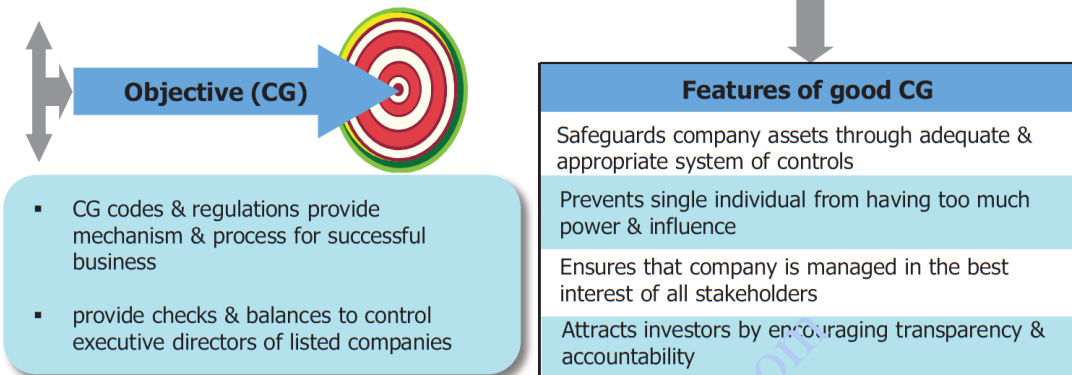


**Intro:** this Study Guide introduces **corporate governance (CG)** & analyses its purposes & objectives. It evaluates roles, interests & claims of internal & external parties involved in CG & discusses role & influence of institutional investors in a CG system.

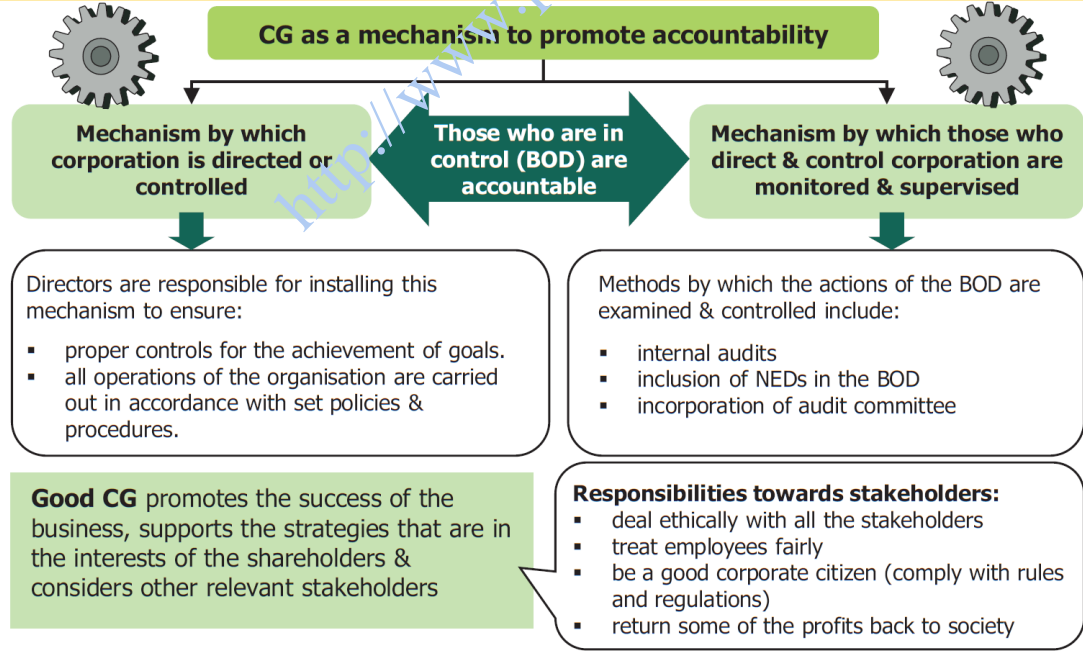
**Analyse the purposes & objectives of corporate governance**

**Corporate governance** represents the set of policies & procedures that determine how an organisation is directed, administered and controlled



The Scope of Governance 1

Governance & Responsibility 2



## Development of joint stock company (JSC) & separation of ownership & control

### Development of JSC

	Business structure	Philosophy
1	Guilds of merchants	Commercial association created to protect trade from competition under Royal charter
2	Commercial ventures	Sole traders / partnerships with joint & several unlimited liability
3	Chartered corporations	Traders operating on own account with own stock & finance
4	Commercial corporations	Partnership or companies with perpetual succession but lacking limited liability
5	Publicly owned JSC	Joining the interests of entrepreneur & capitalist with development of stock market
6	South Sea bubble	Empowered action against promoters, brokers etc.
7	1844 JSC act	Move towards corporate form of liability to facilitate mercantile investment
8	Separation of Limited & Public Limited Company	Ltd company & Public Ltd Company as the predominant forms of business

### The Scope of Governance

3

### Governance & Responsibility

4

#### Separation of ownership & control

- Dispersed shareholders delegate day-to-day management of the company to BOD.
- BOD delegates most of the power & responsibilities to directors & directors appoint managers to handle day-to-day affairs.
- Directors act as agent of the company and work in best interests of shareholders.

#### Theory of separation and control (views)

- **Classical economists** see firms as profit maximisers operated by entrepreneurs who provide the capital.
- JSC are different since ownership (capital) & control (entrepreneurship) are separated.
- Modern corporations may also have obligations that are social and environmental.

### Key underpinning concepts in context of CG

#### The following are the underpinning concepts applied in a business for good CG

- **Fairness:** treat all stakeholders equitably
- **Openness / transparency:** timely and accurate disclosure is made on all material matters relating to the entity
- **Independence:** ensure no conflict of interest
- **Probity / honesty:** give shareholders' confidence that their interests are protected
- **Integrity:** brings moral & ethical issues into play
- **Responsibility:** ensure faithful financial reporting, compliance with applicable laws
- **Accountability:** ensure those who are in control are accountable
- **Reputation:** maintain through acting in reliable, credible, trustworthy & responsible manner
- **Judgement:** a balanced evaluation of data necessary to make a decision