

Corporate Governance

-how to improve Board performance-



In order to optimize the function and competitiveness of organizations in all sectors, there is often a move to focus on Corporate Governance. This term can be defined as a set of rules that describe the relationships between an organization's management, shareholders and other stakeholders. A governing body is generally responsible for Corporate Governance (i.e. the Board of Directors in the Anglo-Saxon company model and the Board of Directors and Supervisory Board in the continental model).

Those governing bodies, with professionally selected members and which function well, can significantly contribute an organization's success, increasing transparency, and from an investors' point of view contributing to return on their investment. Some time ago the collapse of companies such as Enron or World-Com resulted in an increased interest in issues relating to Corporate Governance. These companies failed

due to shortcomings in their management and in the functioning of their governing bodies. As a result, such bodies are scrutinized as never before. Their independence, integrity and efficiency should be the focus of the shareholders and other stakeholders. They are the critical element in achieving the best value of the company.

The starting point for good Corporate Governance is the optimal selection of the members for the governing bodies. They should not be just from a list of prominent or important persons, but a suitably balanced team of experts with different abilities, skills and experience that the company can utilize to achieve its strategic objectives. This is linked to a clear definition of their tasks and responsibilities. Only bodies that include professional members and have a clear focus can govern the company by continuously assessing different parameters – the business model, strategy, performance, the management and leadership.

As with other processes, the operation of these governing bodies should regularly undergo a Board Review. Regular assessments have become standardized – either by the recommendations of best practice in the area of Corporate Governance, or directly by the requirements of some companies for the performance of the governance function. For example all companies registered on the NYSE are required to assess the operation of their bodies at least once per year. This provision is one efficient way by which accountability and efficiency can be enhanced.

Formalized assessment of the performance of administrative bodies makes their members pay attention to self-assessment and look for ways of improving corporate governance. When the governing body is assessed as a team, its members can more clearly understand the importance of team work at this level. Assessment of the team performance also includes an assess-


ment of the tasks, accountability, contribution and performance of individual members, providing a personal focus for the members.

Such a complex assessment, i.e. the assessment of the governing body both as a team and of its individual members, provides a full understanding of the performance of the administrative body and identifies areas for future improvement. An improved accountability and efficiency leads to better team dynamics and communication, the clear definition of tasks and the harmonization of relationships between the governing bodies of the company and its top management.

For the performance assessment of the bodies to provide the maximum contribution to the company it is necessary to define clear objectives, and to select the most suitable approach that takes into account not only the experience and needs of the governing body, but also the company's culture, articles of association, organizational and internal rules, as well as thorough implementation of the assessment process. Through identifying and resolving those areas that prevent the optimal performance of Corporate Governance can benefit not only the governing body itself, but also the company and its shareholders.

Introduction and implementation of the principles of good Corporate Governance will increase not only the efficiency and transparency of private sector companies but can also help improve the governance of state owned enterprises. Whatever the organization, it is an important issue that requires continuous focus. Without continuous improvement of their function and regular assessment of their operation, there is a danger that the governing bodies will become rigid and will not be able sufficiently and flexibly react to the needs of a changing market environment.

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