

Introduction to Corporate Governance

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Key concepts, objectives, structures, and best-practice principles

1. What Is Corporate Governance?

Aspect	Description
Definition	The system of rules, practices, and processes by which a company is directed and controlled.
Purpose	Align the interests of owners (shareholders), managers, and other stakeholders (employees, customers, suppliers, community).
Scope	Covers board composition, executive compensation, risk management, disclosure, shareholder rights, and ethical culture.

2. Core Objectives

- Accountability** – Ensure decision-makers are answerable for actions and performance.
 - Transparency** – Provide accurate, timely information to stakeholders.
 - Responsibility** – Promote ethical behavior and compliance with laws and regulations.
 - Fairness** – Treat all shareholders and stakeholders equitably.
 - Strategic Oversight** – Guide long-term value creation while managing risk.
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3. Main Stakeholders & Their Roles

Stakeholder	Primary Interests	Governance Influence
Shareholders	Return on investment, voting rights	Elect directors, approve major transactions
Board of Directors	Strategic direction, oversight	Set policies, monitor management
Executive Management	Operational performance, incentives	Implement board decisions, report to board
Employees	Job security, compensation, culture	Participate in committees, provide feedback

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Stakeholder	Primary Interests	Governance Influence
Creditors & Lenders	Repayment, covenants	Influence debt terms, may appoint observers
Regulators	Legal compliance, market stability	Enforce reporting standards, sanctions
Community & NGOs	Social impact, sustainability	Pressure for ESG disclosure, stakeholder dialogue

4. Governance Structures

4.1 Board of Directors

Element	Typical Practice
Composition	Mix of independent (non-executive) and executive directors; diversity in skills, gender, and experience. • Audit Committee – financial reporting, internal controls.
Committees	• Nomination/Remuneration Committee – director appointments, executive pay. • Risk Committee – enterprise-wide risk oversight (optional).
Leadership	Separate Chairperson (often independent) and CEO to avoid concentration of power.
Tenure	Fixed terms with staggered re-elections to ensure continuity and renewal.

4.2 Shareholder Mechanisms

- **Annual General Meeting (AGM)** – voting on directors, remuneration, major transactions.
- **Proxy Voting** – allows shareholders to vote without physical presence.
- **Shareholder Agreements** – define rights of major investors (e.g., veto rights, tag-along provisions).

4.3 Internal Controls & Risk Management

- **Internal Audit Function** – independent assessment of controls.
- **Enterprise Risk Management (ERM)** – systematic identification, assessment, and mitigation of risks.

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4.4 Disclosure & Reporting

- **Financial Statements** – audited, comply with IFRS/GAAP.
 - **Corporate Governance Statements** – board composition, policies, compliance.
 - **ESG/ sustainability reports** – environmental, social, governance metrics (often aligned with GRI, SASB, TCFD).
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5. International Governance Frameworks

Framework	Region / Origin	Key Features
OECD Principles of Corporate Governance	Global (OECD)	Six principles: shareholder rights, equitable treatment, board responsibilities, disclosure, stakeholder