

## **Corporate Governance – Renewing confidence in Ireland Inc**

The Government has shown tremendous leadership in the past to make things happen which have had a very positive international impact. The IFSC and the E-hub being two wonderful initiatives.

However, the fall out from the high tech bubble, the collapse of some high profile companies, an economic slowdown, some less than smart financial engineering, inadequate reporting and a number of issues that are our own has brought us to a point of no return on the corporate governance issue.

There is no doubt that our reputation as a destination for international investment and business has been damaged. By how much, it is hard to say.

Unfortunately when it comes to corporate governance, we have been severely lacking while the UK Government has announced two major reviews in recent weeks. This sends a strong signal to the world that they are concerned about the potential impact on their competitiveness, image and public confidence in major corporations.

We now need to ensure that we do all in our power to ensure that our hard won competitive advantage is not eroded by question marks over our own standards of corporate governance.

Ireland now has a narrow window of opportunity to try and regain the confidence of international investors if we are to be taken as seriously as we would like to be, by the international business community. We must not miss it.

### What Ireland should do

There have been a number of encouraging initiatives which are a step in the right direction including the Company Law Review Group, the new Office of the Director of Corporate Enforcement and the bill to establish the Irish Auditing and Accountancy Supervisory Authority. In addition, the European Commission is considering the merits of one EU wide corporate governance code. There are currently over 40 codes used in the EU!

But we also need to play on the international stage. While I am loath to suggest another task force, visible action is required by the Government to demonstrate to the economies that matter most to us, the USA, UK and Europe, that we will take our place at the table to ensure that a “New Deal “ for investors and all stakeholders is developed.

What visible actions could the government take? Here are some examples, but they would need to be thought through in greater detail.

- Give the responsibility for Corporate Governance explicitly to a Minister

- Develop our Corporate Governance policy and structure that strikes the appropriate balance between protecting investor and stakeholder interests and encouraging overseas interests to do business in a “can do “Ireland
- Communicate Ireland’s policy on Corporate Governance proactively in Washington, Wall Street, London and Brussels
- Review legislation that might need to be changed post Enron etc to ensure that we have true, fair, transparent, but most of all, reporting on company performance that is understandable
- Ensure that as part of the annual audit, an opinion is now given on the standards of corporate governance in all public, private (over a certain size) and state companies
- Bring in some form of assessment / qualification for non executive directors of public and state companies
- Lead the way by only appointing non executive directors to state organisations who are truly independent and have the requisite skills and experience to add value
- Host an international conference on Corporate Governance to demonstrate that we are willing to take a leadership position
- Make Ireland a centre of research and development on Corporate Governance
- Encourage the education and development of directors with the requisite professional associations and educational establishments such as the Centre for Corporate Governance at UCD

These actions and more should demonstrate that we as a country will not take this issue lying down.

### **What companies should do**

There are a number of initiatives that companies could take. They range from the relatively straight forward to the radical:

- Rigorously assess whether they have the appropriate number, balance and calibre of non-executive directors required to support the company as it moves through its various phases of development. Who should do this is a moot question, but the chairman would be the obvious candidate in consultation with the major investors
- The chairman should meet informally with the non-executives to discuss the performance of the company and agree the specific roles they can play in its development
- The chairman and non-executive directors should meet formally with the major shareholders to understand their concerns and issues that need to be addressed

- Appoint a non-executive director who has acknowledged expertise in the area of Corporate Governance. Quality non-executive directors will help to ensure that the right balance is struck between the letter and the spirit of the law. Ill informed non-executives will find this task more difficult and consequently will add less value to the company. So it is the responsibility of all directors, both executive and non-executive, to keep up to date with the relevant legislation and developments
- The chairman should request that an independent review is conducted of corporate governance to identify any issues that may need to be addressed

#### What directors should do

Given recent developments, the board should ensure that at least once a year there is a real focus on a risk-based approach to establishing internal controls and reviewing their effectiveness. Internal control systems should encompass; business objectives, identify the risks associated with delivering on them, financial controls and proper accounting records, not to mention operational and compliance controls.

Once the board is happy with the internal controls, the rest of the year can be devoted to the strategy of the company and creating shareholder value.

#### The golden rule

Globalisation and liberalisation of markets such as energy, financial services, telecoms etc is forcing more and more regulation which in turn demands a step change in corporate governance performance. The advent of Enron has put the spotlight on Corporate Governance like never before.

Independence and objectivity around the boardroom table will now carry a much greater weight and responsibility for all directors. Consequently, the roles and responsibilities around the boardroom table to be clearly defined. To assist in this quest for greater objectivity and independence all non-executive directors should be financially independent of the company and should declare this to be the case before taking up any new directorships. It is very difficult to offer independent and objective advice if a material part of a non-executive directors income is dependent on one or two directorships.

#### **1.1.1.1 Finally**

Ireland needs to stand up and be counted on the Corporate Governance issue. We have one chance to regain international and public confidence through better standards of Corporate Governance.

We miss it at our peril.

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