Article

Governance alone is neither a sword nor a shield

Maria Krambia-Kapardis, B.Ec., M.Bus, Ph.D, FCA, CFE

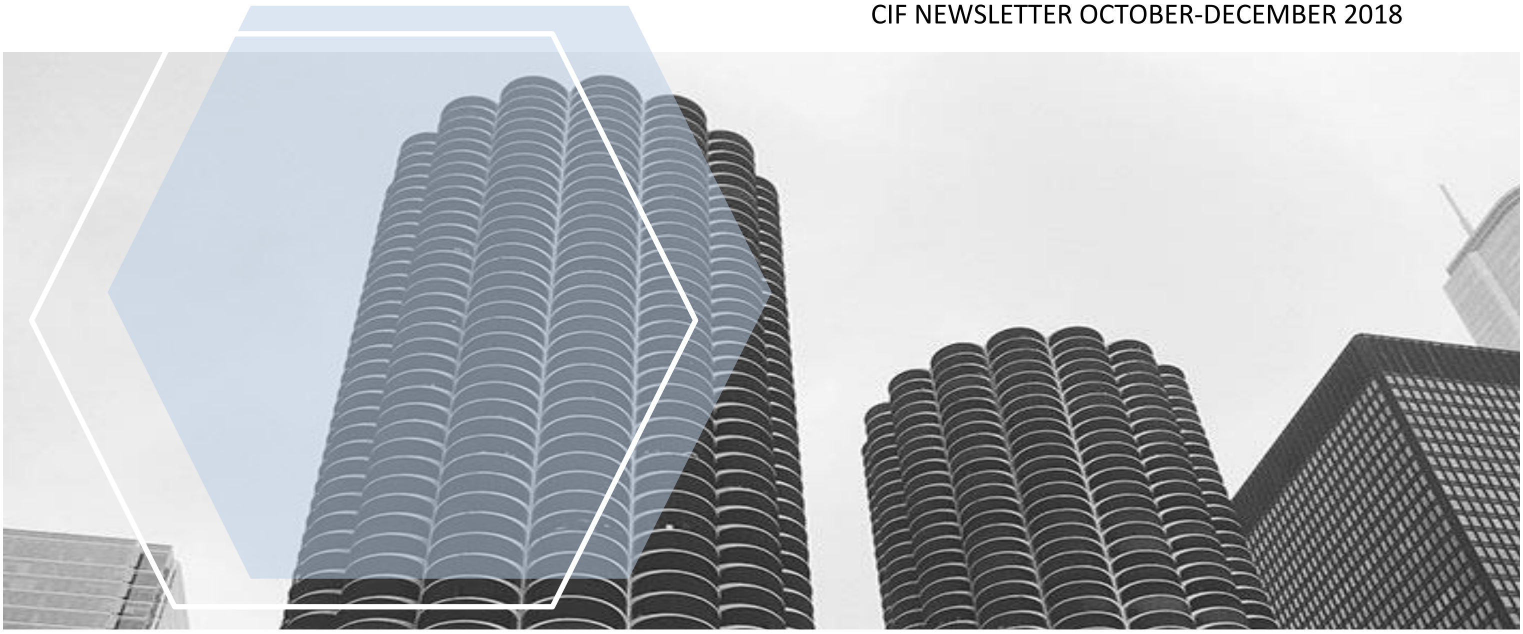
Assoc. Prof. of Accounting, Cyprus University of Technology

Founder and First Chair of Transparency International-Cyprus (2010-2017)

Governance describes the elements of organizational control and accountability that are necessary for the good management of any organization, private or public. As Krambia-Kapardis (2016) asserts the processes that are involved in corporate governance (CG) also play a key role in controlling corruption by promoting ethical behavior and enhancing competence. In addition, effective implementation of a good governance system decreases the risk of fraud by encouraging a work environment that is not conducive for such behaviour. In theory, governance enables better monitoring and control of management and accountability of the board, which sets the tone at the top.

OECD has defined Corporate Governance (CG) as the system by which companies are run and controlled as well as the manner in which liabilities and rights are shared by the main actors of an entity. Thus, CG is the set of process, customs, policies, laws and institutions affecting the way an entity is administered and controlled with a view to increase its performance and value.

The need for CG came about with the idea of the limited company once the roles of ownership and control were spelled out and the agency theory was coined. At the same time, however, the issue of conflict of interest (Peters and Handschin 2012) and the risk of dishonest or incompetent managers were also introduced, both of which have an impact on good governance in the public or private sectors. But it was not until 1992 and in the wake of some well-known company collapses in the United Kingdom that the first version of the UK Corporate Governance Code was produced by the Cadbury Committee. In May 1991 a committee, described as the milestone on CG, under the chairmanship of Sir Adrian Cadbury was commissioned to report on "the perceived low level of confidence both in financial reporting and in the ability of auditors to provide the safeguards which users of company reports sought and expected" (Cadbury 1992, par. 2.1, 2.2). The 1992 Code defined CG as "the system by which companies are directed and controlled" and stated that "governance of companies is the responsibility of the board of directors" (par. 2.5). The key principles of accountability, probity, and transparency underpinned the code. At the same time the code emphasized the governance responsibilities of nonexecutive directors and the responsibility of directors in maintaining adequate systems of internal controls, and it advocated establishing audit



committees and the separation of the positions of chairman and chief executive. Following further scandals in the United Kingdom, the Greenbury Report (1995), the Hampel Report (1998), and the Turnbull Report (1999) brought together the Combined Code, which was later revised to include the establishment of culture, values, and ethics of the company and the risks affecting longer term viability. As in the United Kingdom, in the United States, the Committee of Sponsoring Organizations (COSO) of the Treadway Commission was formed in 1985 to improve organization oversight, reduce fraud, and improve organization performance.

In Cyprus and abroad there has been much talk of the need to rebuild trust in business. Trust, however, cannot be regulated but has to be earned. The most one can hope for is to encourage company directors and management to display behaviours that will earn back the lost trust in businesses. It is not wise to blame systemic weaknesses and branding each corporate-mismanagement as governance failures. By doing so, it is implied that by adjusting the apparatus and by shifting the bar higher, is the way to prevent them. Revising the code, or adding more committees, may often be the right response but sometimes it will not be because most corporate failures are not examples of systemic failure but of poor judgement, bad behaviour, or negligence. Their root cause lies in human nature which is beyond remedy by regulation.

It can be concluded that both locally and internationally, governance alone has proven to be neither a sword nor a shield. If it was, there would not have been a need to revise the Code every time there was a corporate failure/mismanagement and to revisit it regularly in order to re-adjust the apparatus. Therefore, there is a need to contextualise governance if human appetite for more power, money, and wealth is to be reasonably restrained.

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