Company operations and management – corporate governance essay

Business, Corporate Governance

Corporate governance is an essential part of modern company operations and management , it relates to business ethics, code of conduct and system to manage a company. However, there are many corporate scandals due to thefailureof corporate governance. This report analyzes the corporate governance from multiple aspects. It is through the understanding the relationship between corporate governance and business ethics, evaluating the ASX principles as a guidelines to corporate governance and analyzing the National Australia Bank's corporate governance.

ASX principles referring to problems such as business ethics, code of conduct, diversity and risk management are explained with analyzing and instances, and well carried out by National Australia Bank 1. Introduction With corporations close down in financial crisis, the problem of corporate governance has been concerned again. Bad corporation governance and poor business ethics can take many problems to a company, such as internal corruption, cheatinginvestors and weak risk management. This report will address three questions about corporate governance.

Firstly, this report will explain the definition of corporate and its relationship to business ethics. Secondly, it will examine three Australian Securities Exchange (ASX) principles with ethics and recommendations of corporate governance. Finally, it will evaluate corporate governance statement of National Australia Bank (NAB) , which is a financial company, and assess the efficiency that associate with ethics in ASX principles. 2. Corporate governance and business ethics Corporate governance is a way that a company is ordered, managed and controlled.

It influences companies in how to set and achievegoals, how to monitor and assess risks, how to optimize performances (ACCA and KPMG2009, p. 2). The aim of corporate governance is to balance the interests among corporation board, its management and share holders (Bonn&Fisher2005, p. 2). Further the understanding of corporate governance can be explained in two ways. It relates to company behavioral patterns: that is the practical behavior of corporations, such as honest behavior, protect stakeholders interests.

Corporate governance also concerns itself with standard framework: that is, the principles under which companies are operating, such as corporation's code of conduct, ASX principles (Claessens2003, p. 2). Corporate governance and business ethics are in a mutually supporting way to promote each other. Business ethics is a guide, foundation and purpose of corporate governance. Corporate governance requires company to corporate under the rules to achieve business ethics(Rossouw2005, p6). Good corporate governance is very important for a company.

It can protect shareholders interests that avoid agents violate owners interest and major shareholders violate minority shareholders interest. Efficient corporate governance can also strengthen the board function and improve the company's public image. 3. Examination and explanation of ASX Corporate Governance Council's principles and recommendations. The ASX Corporate Governance Council was set up in August 2002 and it was made up of 21 business, investment and shareholders groups. The Council's multitudinous range of interests makes its principles more objective.

This council's mission is to ensure its principles to be an effective guide for public company. 3. 1 Principle 3—Decision making with morality andresponsibilityCorporations should set up a standard of behavior rules and publish these rules or a summary of these rules as to make ethical and responsible decisions. Because the establishment of modern company system leads to the separation of enterprise's management and ownership, so to make an ethical and responsible decision is very important for stakeholders(Yu2010, p1).

The moral and responsible decision should preserve the company cohesion, consider responsibility of company and expectation of shareholders, and take the responsible report about unethical practices. The ASX gives some detailed suggestions for the rules, such as board and senior executives should make a commitment to the code of conduct, and explain how the company copes with practical and possible conflict of interest. These suggestions allow corporation executives know more detailed information about how to make a promote ethical and responsible decision(ASX2010, pp22-25). 3.

2 Principle 4—Oversight corporation operation with an audit committee Corporations should set up an effective audit committee to oversight the company operation. If company lack of an effective governance mechanism will lead to manager's corruption. There is a conflict interests and a lack of surveillance of management by the audit committee contributed to the Enron collapse in 2001(Li, 2010, p37). ASX gives some recommendations about how to make up an effective audit committee. An effective audit

committee should be constituted all of non-executive directors , a majority of them are independent directors, and there are at least there members.

These ways can effectively improve the quality of financial report, establish an honest atmosphere, and improve the confidence of public to financial report’s truth and objectivity. An effective audit committee also should have a formal charter to more competently perform the audit committee’s duties(ASX, 2010, pp26-28). These recommendations make corporate governance under oversight to take a more ethical operation. 3. 3 Principle 7 —Risk recognize and control Corporation should set up policies for supervision, control of material risks and reveal a summary of those policies to identify and control risks.

Corporations usually take a risky way to get higher profit. For example, Lehman Brother as an investment bank, usually takes a high leverage to earn much profit. This risky operation makes Lehman Brother at danger. After the subprime crisis occurred, Lehman Brother went bankrupt. If Lehman Brother has an effective risk committee to oversight and calculate the risk index, which will vastly avoid investment risk(FCFSI2009, p8). So corporations need risk management policies and risk committee to ensure risks coincidently identified and evaluated.

Corporation also should reveal whether assurance be received from CEO and CFO that is based on sound of risk management and operated efficiently. Making honest disclosures is to protect shareholders value and encourage them participate in corporate governance(ASX2010, pp33-36). 4. EVALUATION OF NAB NAB which is a fourth financial institution in Australia is to capitalize market and service for customers. NAB also is an international bank, it operates across 10 countries and over 2. 3 million wealth management customers. 4. 1 Ethics, conduct and diversity

NAB has done commendably in integrated Code of Conduct. NAB has a code of conduct which required the observance of elaborate ethical guidelines. The code of conduct controlled all employees and directors of the corporation, with conduct of the Board also dominated by the Board charter. These code of conduct and each director covers: personal conduct, relations with customers, financial advice to customers, conflict of interest and disclosure. The code of conduct makes NAB corporation governance more effectively under business ethics(NAB2012, p43). NAB also basically observed the diversity recommendation.

Diversity can help company make more objective and wise decision. NAB has over 300 senior leaders, which come from different countries, and 28% of management are women(NAB2012, p50). So, NAB can follow different aspects' opinions to make a more fair decision, which concerned every party's interest. 4. 2 Integrity in financial report NAB has a generally efficient audit committee which has clear responsibilities to make sure that financial report is integrity. There are 5 members in NAB audit committee and all are independent and non-executive directors. There are also one member be a member of the risk committee.

There is a demand that all audit committee members should have a range of different backgrounds, skills and experience, having regard to the operations, financial and strategic risk profile of the Group(NAB2012, pp 44-

45). People from different aspects can help corporation more widely oversight different problems from corporate governance. However, according to the NAB corporate governance, there is not detailed information about audit committee members. Although NAB has a efficient audit committee, it is not transparent enough. 4. 3 Risk management NAB sets up a risk management framework and a risk committee to control and evaluate risk.

Management has reported to the board about the performance with risks. In the risk committee, there are 5 persons are non-executive directors and one member from audit committee(NAB2012, pp44-48). In risk committee, people from different backgrounds can help corporation more effectively recognize risks. NAB did not disclose the risk management to the public. NAB's risk management is mainly responsible for the board. This makes NAB be little opaque to influence investors confidence. 5. CONCLUSION Corporate governance is an inevitable problem to a company. It is related to the life of a company.

Corporate governance and business ethics are complementary. The aim of corporate governance is to take good business ethics. Business ethics also promote corporate governance more effective. The ASX principles make corporate governance more efficient and business more transparent, and improve investors confident. The NAB has generally followed the ASX principles. Although NAB has some aspects are not performed very well, it has a clear goal to be better. References: a) ASX Corporate Governance Council, 2010,'Corporate Governance Principles and Recommendations with 2010 Amendments'.

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