JCI

LEADER

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CORPORATE GOVERNANCE

HOW CAN OUR YOUNG LEADERS LEARN FROM THE RECENT CORPORATE GOVERNANCE SCANDALS?

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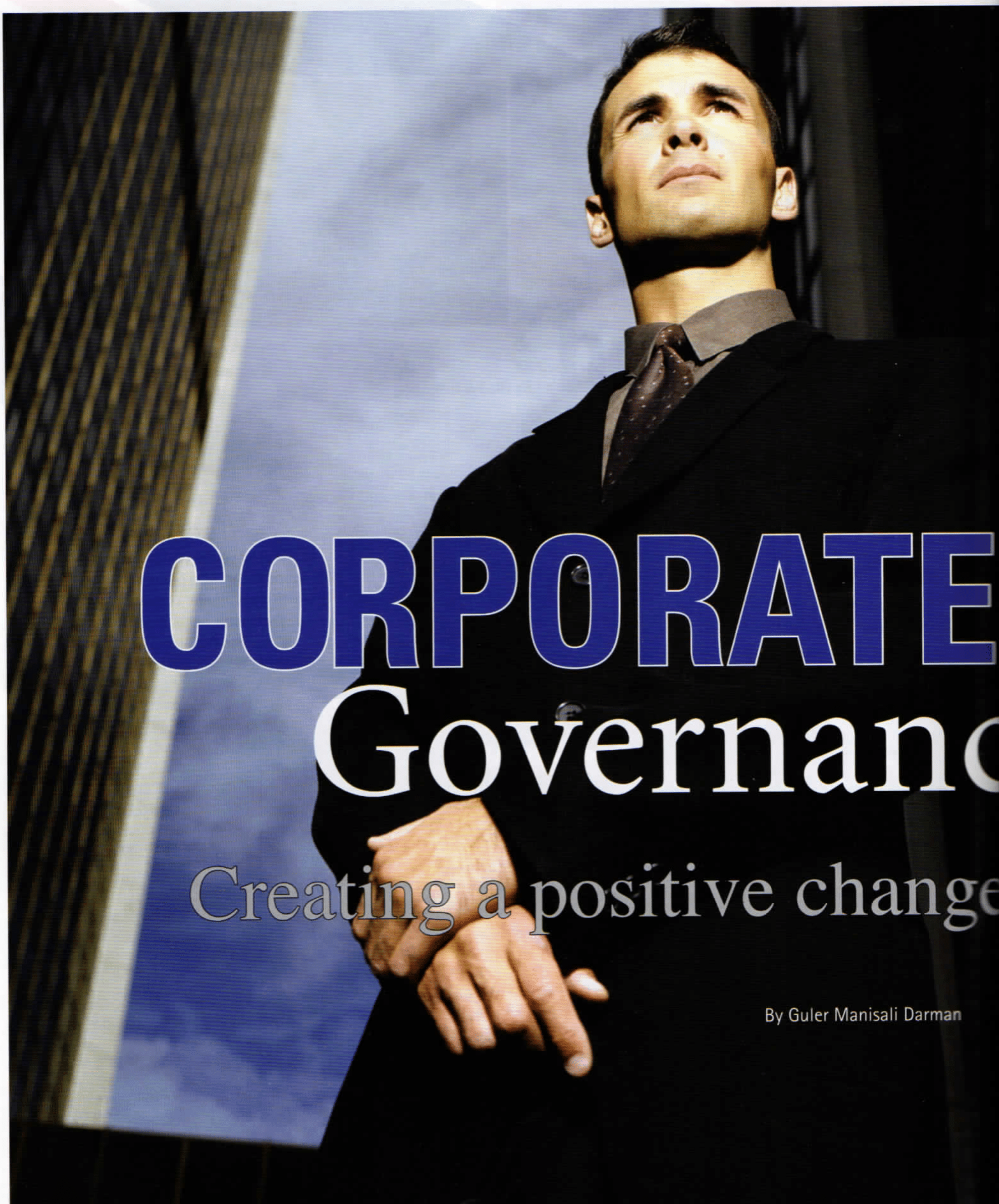

CORPORATE Governanc

Creating a positive chang

By Guler Manisali Darman

The proper governance of companies will become as crucial to the world economy as the proper governing of countries.

James Wolfenson,
President of the World Bank

In the 20th century, modern corporations became one of the world's dominant institutions. Consequently the way they do business is now under close scrutiny.

The essence of corporate governance is improved performance, which will eventually lead to job creation, wealth and consumer welfare. It is an essential element for sustainable economic growth in a market economy.

Recent corporate scandals and failures, each stemming from different causes, have accentuated the importance of good governance practices. Many factors contribute to good governance. The commonly accepted standards over which a general consensus has emerged are accountability, financial disclosure and transparency, independence of the board, shareholders' and other stakeholders' rights, equal treatment of shareholders, and ethical behavior and leadership.

But how companies conform to these principles and put them into practice is as important as their acceptance. Good corporate governance practices are not merely a box-ticking exercise to comply with a form; they are also the substance. If good practices are put in place and followed up by management commitment, they will have a positive impact on a business's bottom line.

"BUSINESS IS IN THE AIR WE BREATHE, IN THE WATER WE DRINK," SAYS THE CORPORATE GOVERNANCE GURU, ROBERT MONKS.

The companies produce goods the society consumes. They have employees; they are receiving credits, purchasing insurance, and are being audited by the domestic or international auditing companies and rated by the ratings agencies. If they are listed, they may be distributing profits to their shareholders. In short, they are in contact with all the parties who have a stake in the company, the stakeholders. Therefore, the consequences of their actions can have wide ramifications.

Enron, WorldCom, Tyco, and the Parmalat affairs are some of well-known failures, each stemming from different causes that have accentuated the importance of good corporate governance practices. The decline in public trust has to be restored. Companies and institutions cannot afford to have their reputations tarnished by inadequate oversight and unethical governance, nor can national economies continue to suffer from laxity and fraud in corporate activities.

Good corporate governance is shared responsibility. In this respect, it would hardly be wrong to say that the JCI mission is commensurate with good corporate governance practices because JCI contributes to the advancement of the global community by providing the opportunity for young people to develop the leadership skills, social responsibility, fellowship, and entrepreneurship necessary to create positive change. These features align with the basics of high standards of governance.

Evolving Role of Boards

Board is the key corporate governance mechanism. This is the process by which management is monitored by (outside) directors on behalf of shareholders in order to align the interests of all sides. Self-regulation via board is the linchpin of good corporate governance. Boards who realize the importance of human element, a chemistry that cannot be qualified, become effective and robust. Members of such boards behave in integrity, challenge each other's views and beliefs, but also respect each other. They are in a better position to perform their fiduciary duty to act in the best interests of shareholders.

These attributes also, highly dovetail with the purpose of JCI because, JCI operates on the premise that the development of individual character and personality will result in communities that are better developed and, eventually, in a more peaceful world. Furthermore, JCI is a people organization. It offers its members opportunities that will reinforce humane attributes such as communication, understanding, patience, and tolerance.

Corporate Responsibility

In the aftermath of the wave of corporate scandals in the early 2000s, there was concern whether these resulted from systemic failures that threatened corporate credibility and the essence of the free enterprise system or whether they were special cases without wider ramifications. Measures taken all over the world indicate that there is an international concern on the topic. And there is a consensus that corporate responsibility is the core of the issue. Responsible behavior is the linchpin of corporate credibility, and corporate credibility is closely linked to corporate responsibility.

Corporate responsibility is also referred to as social responsibility, responsible business conduct and corporate citizenship. International Chamber of Commerce (ICC), the world business organization, prefers the terms "responsible business conduct" or "voluntary corporate initiatives" and defines corporate responsibility as "the voluntary commitment by business to manage its activities in a responsible way". Though the core element of corporate responsibility concerns business activity, it goes far beyond ways of conducting business: it also concerns corporations' relationships with society as a whole.

At this point begins the role JCI can or, more than that, should play in the proliferation of good governance practices because we must remind ourselves that JCI was founded to address global concerns.

Guler Manisali Darman is one of the founding members of the Junior Chamber International (JCI) Turkey. In the aftermath of the first cooperation agreement between JCI and ICC, when she was the Executive Director of the ICC Turkish National Committee, she introduced the idea of setting JCI in Turkey in 1984. She was the founder of a JCI Local Organization in Ankara in 1987 and JCI Turkey Vice President in 1992. She is now a JCI Senator.