ACFI3423 Governance and Sustainability

Assignment 1

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Introduction

In the contemporary world of conducting business, the concept of diversity has been on the rise. Diversity of board of members, and managers is said to be one of the core aspects of governmental issues and performance Daniel Ferreira (n.d). Within all aspects of conducting business board of directors are the ones making decisions that are infrequent but are strategically very important in deciding the firm's performance and accountability. There have been various studies that focus on financial and operational well-being due to diverse board of members (Donald, 2011). Diversity is said to play a major role in deciding the financial position of a company. With respect to this there have been legislations that have been approved by the commission boards that promote gender equality. Legislatures in this regard have set a threshold level of 40% representation of the gender that is under represented ICGN (2005). The modern ways of conducting business has changed, so have the corporate ways of governing a business.

Discussion

The corporate agenda of corporations include the responsibilities of the board of directors as area of major concern. This is mainly due to the fact that board of director act as agents to shareholders of the company. Furthermore, they are also responsible to take decisive actions are associated or portray collective benefits and goal achievement of the participants involved in the performance of the company (Hillman and Nielsen, 2015). Board of directors are considered as pillar for the company in regards to having a robust governance system. As per the Economic Co-operation and Development the evidence that pertains to corporate governance in their research states that the framework of corporate governance has a mandate to ensure guidance for the company. This guidance pertains to effective monitoring of company performance, accountability, sustainability and the legal aspects of conducting business. The accountability of board of directors represents the board's responsibility towards the shareholders, and in terms of addressing their issues and interests.

Board's Diversity

Over the past decades there have been many sources of literature that lay emphasis on the diversity of board of members, in terms of presenting it as solution to problems of the company. The urge of incorporating diverse people in the governance of the company is met by hiring a range of people that come from a diverse background. This must also be brought into attention that this particular aspect of corporate governance has not been given a certain definition; consequently, it is spoken of as factors like age, gender, race, academic backgrounds to form a team that is responsible to undertake strategic decisions. As per the study conducted by Reguera-Alvarado, de Fuentes and Laffarga (2015), a large and broad approach to diversity aims at nurturing a spectrum that is diverse in terms of characteristics, demographic attributes.

Board Diversity and its Relationship with Company Performance and Accountability

When talking about corporate governance and performance of the company there are many theories that can be incorporated to elevate the scope of the study. One such theory pertaining to this is the agency theory that forms its basis on a principle that shareholders and the mangers of the company have differences in their interests and has the tendency to create conflicts that causes hindrances in financial well-being of the company. Firm's accountability is considered an important aspect that companies needs to address. This is supported by Stewardship theory that makes board of directs an ethical and professional entity that is formed with the main purpose to prevent conflicts in interest between the shareholders and the managers of the company.

Stewardship theory postulates that in the case of conflicts, firms are on a verge of losing their investment and financial standing in the financial market where the company is listed (Hernandez, Guarana and Halgin, 2016). Agency theory however assumes that managers are honest and responsible people who do their best not to create obstacles in fulfilment of shareholder’s objectives. Both of the above mentioned theories present corporate governance which includes board of directors as an executive entity that is responsible for the company’s relations with the society, investment and company’s policy. In the same context, an alternative Resource dependency theory that undertakes the analysis of the relationship between relationship management of the company, for instances relation of company with agents, shareholders and the contributors of the business (Drees and Heugens, 2013).

The basis of this theory is interpreted into valuing the extent to which the corporate governance facilitates maximizing performance of the company. Board of directors are known to play a vital role on arranging valuable resources for the company. These resources include financial resources that are earmarked mainly for responsible investments. On the basis of perspective presented by Harrison and Wicks (2013) legitimacy is said to be a major aspect that participants of the business seek. This makes company fix their aims and objectives towards providing economic efficiency, which induces balance of interest fulfilment. The theories presented above undertake corporate governance responsible for policies of maintain relationship with society and responsible investment decisions, that creates balance and link between financial well-being, and accountability. Studies in this regard present views which show being accountable and undertaking effective financial decisions improve financial position of a company (Harjoto, Laksmana and Lee, 2015).

Corporate governance is said to rise due to separation of company’s ownership and the control of business. This makes the directors or the board members of the company to ensure company’s viability and maximizing profitability in order to maintain the interests of the shareholders. The decisions that are taken by this board of directors as mentioned above determine the level of company’s financial performance. This leads to increasing demands for proper accounting, transparency, and information sharing with the shareholders. In the same context laws presented by Unified Code of Good Governance mentions that the board of directors needs to abide to maintenance of common grounds of interest (Brown and Marsden, 2013).

As per the above presented critical review on the role of corporate governance, it is also important to understand how diversity can add value to corporate governance and the performance of the company. Diversity adds value to the roles that board of directors perform. The decision making of the board of directors is believed to enhance due to diverse board of members. Diverse board of members as depicted through the studies of Tricker (2015) increases possibilities of group thinking that will invest more attention to control and governance of company’s operations. Board of directors are known to undertake decision making as an effective tool for problem solving. By having a diverse group of people broader dimensions towards an issue can be looked into (Kakabadse et al., 2015).

Investment decisions that promote long-terms sustainability and better financial performance can be looked into. This however does not assume that a non-diverse board will not look into viable options available to the company. The point being discussed here is less diverse board can have a limited scope which has the audacity to restrict investment decisions. This tempers with the financial performance of the company. Combining diverse backgrounds, experiences, educational background and different genders allows rigorous debates what ensures firms accountability and financial well-being (Ntim, 2015). Diverse members of the board are more likely to incorporate different personal perspectives and lead to areas of opportunities. Acting as a fiduciary, diversity fosters creativity, and comprehensive oversight into matters and issues. This leads to dynamics of the company that are of higher quality, and further ensures accountability in terms of higher probability of shareholder's objectives being met.

Stakeholder's demand form directors are on an increase which requires board of directors to incorporate decisions that add value to the company. Having a diverse board would allow better utilization of talent which are considered as valuable resource for a company. Besides this maintaining company's reputation, investor relations and portraying company as socially responsible companies enhance their corporate reputation by reacting positively to diverse constitutions and better understanding of consumer needs and demands. Diversity in the board of directors acts as a social contract between the stakeholders of the company. This promotes the strategic fit of the company with regards to the market the company is operational under. This enhances company's reputation of accepting ethnic differences, gender differences and as a responsible corporate entity.

As per the theoretical implications into the field of study it can be observed that corporate governance directs the company. Board of directors are known to implement strategies that help the business in achieving social objectives. The studies pertaining in this regard show a strong and a direct link between diversity in board of directors and the way company is governed. Diversity adds value by increasing access to information creativity and problem solving which enhances the financial performance of the business (Westphal and Zajac, 2013). Furthermore, enhanced market information and knowledge about the supplier and customers allows the company to maintain its accountability and its role in fulfilling its social responsibility.

Improved and diverse board members allow better supervision, monitoring and opportunities of the company that also adds to better company performance. However this aspect of corporate governance is also responsible to add to the costs of the company. Lack of cohesion among the board members, lack of trust and corporation, time consuming decision making procedures and conflicts adds to the inefficiencies of the company. For the perspective of corporate governance diversity adds value by improving the director's ability to discharge their duties. The role of diligence, care and skill as mentioned under the section 174 of companies act is fulfilled by improved diversity of viewpoints, enhanced scope of discussions and improved access to information are the results of diverse board of directors (Sheikh, 2013).

Section 172 of Companies Act incorporates the duties of directors in terms of addressing the interest of the shareholders (Sheikh, 2013). This aspect of fulfilment of duty has been the main reason for incorporating diversity in the board of members. Diversity in terms of corporate governance allows companies to have improved compliance with their duties, social considerations and ethical concerns which makes the values of the company more committed towards developing relations with the shareholders.

Conclusion

With the changes in the corporate world it is necessary for business to adapt to the changing situation in order to maintain the level of company's performance. The observable crisis of companies such as the collapse of Polly Pecks, BCCI and Enron has increased company’s accountability (Shi, Connelly and Hoskisson, 2016). The greater demands for transparency are met by enriching the environment by improving the way company is governed. By paying attention to diversity companies become more reflective of the interest of the shareholders. This adds value to the long term performance of the company and accountability. Differences in vision create areas of opportunity and better understanding of the participants involved in keeping the business operational. Maintaining business relationships, investor relations, adherence to the social responsibility and ethical concerns are met with diligence. Furthermore, the increased globalization, technology, customer demands, and the emergence of free markets have raised the company’s requirement to have a broader view in terms of direction. However, there are areas in this study that could use a further elaboration such as the financial outruns of different companies, the factors the makes transparency and diversity a critical aspect to be involved in methods of governing a business that promises better company performance and sustainability of a company.

Recommendations

Recommendations to the study are associated with the emphasis the study lays on diversity in the board of members that allows comprehensive fulfilment of the aspects of corporate governance. Recommendations to the study include

- Diversity is linked with improved public and corporate image and has been one of the major results of corporate diversity.
- A company can improve its social accountability by adding a different perspective by incorporating a diverse group of directors.
- Increased competitiveness and emergence of free markets can be combatted by diversity

- Companies face an ever increasing demand of the shareholders, which can be met by increased access to information, and director's ability to comply with their duties that result from a diverse governing body.

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