



NICO Asset Managers

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INVESTOR’S GUIDE

A guide to the financial markets, investments and the economy

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Topic 239: Benefits of Corporate Governance

Last week we continued the topic on corporate governance. We discussed the various sets of relationships between key stakeholder groups in an organization and how these relationships often lead to conflict. This week we will look at the importance of corporate governance. Corporate governance consists of the various duties, obligations and rights that control and direct a corporation. It is an important aspect of any business and it helps to properly distribute the responsibilities of stakeholders that participate in an organization. When corporate governance is done properly, it allows the company to work smoothly due to the existence of a level of accountability and communication in the organization. Hence corporate governance is an important aspect in every business, especially publicly listed companies. The following are the main benefits of corporate governance:

1. Accountability

One of the main aspects of corporate governance is to give stakeholders accountability. As mentioned earlier, good corporate governance adequately informs all key stakeholders in an organization of what they are supposed to do. By knowing their roles and responsibilities, they understand what they are accountable for. Accountability helps people when making decisions. For instance, the board of directors has the responsibility of properly evaluating the management of the company. If a manager is involved in fraud or engages in inappropriate behavior, then the board of directors is accountable for not properly evaluating the manager. In that regard, the blame cannot be placed on other stakeholders in that corporation.

2. Reputation and Recognition

Many corporations have high levels of corporate governance, mainly because they have an image they would like to maintain to the public. Corporate governance helps corporations take more responsibility for its actions and also helps those in charge to remain well aware of the public image of the corporation. This also gives comfort to investors to know that their money is secure. With the way businesses are run today, a company cannot be successful just by having a high level of profits. Corporations are also evaluated based on their public image, such that corporate governance is established to ensure its image remains clean.

3. Lowering Risk

Another importance of corporate governance is mitigating or reducing the amount of risk. Scandals, frauds and criminal liability of the company can be prevented or avoided altogether through corporate governance. Corporate governance is self-policing, such that frauds and other mismanagements can be quickly detected and dealt with internally before the public finds out and outside forces intervene. Since stakeholders know what they are accountable for, the actions of one person should not have an overall negative effect on the entire organization.

4. Reduce Wastage

Good practices of corporate governance help companies become more efficient in their businesses. Employees are trained to follow ethical practices which will avoid wastage of the company’s resources in legal costs. This helps the company to utilize its resources optimally.

Next week we will look at failures of corporate governance.

Head Office	Lilongwe Branch
19 Glyn Jones Road	Corner Kenyatta Drive
Chibisa House	NICO Centre
P.O. Box 3173	P. O Box 30729
Blantyre	Lilongwe 3
Tel No: 01 832 085/086 Fax: 01 821 617	Tel no: 01 757 086 Fax: 01 751 617

invest@nicoassetmanagers.com | www.nicoassetmanagers.com
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