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The importance of corporate governance and the role of risk management in the business sector.

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Executive Summary

"Corporate Governance is the set of rules that define the relationship between stakeholders, management, and board of directors of a company and influence how that company is operating. At its most basic level, corporate governance deals with issues that result from the separation of ownership and control. But corporate governance goes beyond simply establishing a clear relationship between shareholders and managers". (OECD Principles of Corporate Governance, 2004)

Corporate governance is about how companies make decisions, how they organize and arrange themselves and how they communicate with shareholders and the rest of the world. Normally, corporate governance deals with concerns such as the way of choosing the board of directors and the executives, what obligations and responsibilities boards and executives have, whether shareholders have any privilege to participate in specific types of business decisions through voting and, if they have these rights, what form they take.

Many companies are aware of that good corporate governance and risk management is great business practice, great business strategy and what many companies are concentrating on to enhance their business, predominantly in the emerging global marketplace where companies are continuously trying to surpass each other to make their business more operative and to attract new investors. For those companies that reject or fail to apply good corporate practices, this failure can have undesirable impacts not only for the business but for investors and the community at large.

Failures of corporate governance and risk management can have after-effects that reach further than the company itself and lead to complete harm for national economies, as recently happened in Cyprus with the failure in banking system and the demise of the two main banks in Cyprus, the Bank of Cyprus and the Marfin Laiki Bank. The banking system of a nation is one of the most vital in an economy. If banks fail it is likely that the whole economic system will fail. That is why historically, governments and Central Banks have been acting as guarantors or lenders of last resort. Therefore, it is obvious that the collapse of Cyprus Banking System seriously harmed the economy of the island.

As corporate governance remains an area of focus for most businesses, regardless of whether they are involved in international operations, there are many inquiries and concerns that firms still struggle with:

What is good corporate governance and why is it so significant?

Why are so many businesses and governments encouraging improved techniques in corporate governance?

What are those techniques and finest practices?

Is there indication that these reforms and strategies are useful for businesses in stimulating transparency, sustainability and the assurance of global markets and investors?

Why governments are interesting in forming new regulatory frameworks for businesses to enhance their corporate governance?

What is the association between corporate governance and risk management?

How the risk management influences the wealth and prospective of a business?

This paper will go through all these questions. I will attempt to give answers to these questions by referring to specific examples of companies, foreign and domestic, that failed to continue their operations due to the lack of corporate governance and weak risk management. A deep analysis of the causes that led these companies to demise will be carried out by referring to the historical events that led them to the crisis. Finally, I am going to make some recommendations in order to avoid such problems in the future.