Dutch Caribbean Securities Exchange

CREATING PROSPERITY BY CONNECTING INVESTMENT OPPORTUNITIES TO INVESTORS

INVESTORS' CORNER

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The Financial Upside for Strong Corporate Governance Part 2

"It takes 20 years to build a reputation and 5 minutes to ruin it.

If you think about that, you'll do things differently."

Warren Buffett

This is the second part continuation of a two-part series on Corporate Governance. Part 1, which discusses what it entails and its relevance to all sizes of companies, is available at www.vertexinv.com or at www.dcsx.cw.

Where did we leave off the last time? Oh yes, we indicated that strong corporate governance which stipulates the system of rules, principles, and policies that governs the activities of a company, is critical for all sizes of business. It is even relevant for investors in their decision-making process.

Ok, I get it, corporate governance is good to have but my company is too small to make it work, anyway. Now that is where you are wrong! At the same time, I must admit that there are some stringent rules out there that not even the largest of companies can adopt without feeling the impact financially. With that said, there are a number of globally recognized best practices that can be applied at different levels and to varying extent to get your company on the way to a very strong policy environment and culture.

Here are some practices that small, medium and large business can easily adapt to improve their corporate governance a notch:

1. Establish a supervisory (or an advisory) board to provide independent oversight of management and company policies. Not just any board though, the members should have relevant industry experience; wouldn't it be foolish to have a board consisting of a pilot and an actor for an Investment company? Well, that was indeed the case in Lehman Brothers! I kid you not. A decent board should have at least 3 members;
2. The board should meet at least once per year. Although it is best to meet quarterly, one can appreciate that it may be difficult to do so;

3. The supervisory board members should be majority independent. This means that if you have 3 board members, 2 of them must not be associated with and definitely not employed by the company;
4. The Chairman of the Board must be different from the Head/CEO of the company. This is one of the most important rules to ensure a strong corporate governance structure;
5. The Board should review the policies, procedures, and activities of the company and provide guidance;
6. Adopt a Professional Code of Conduct and Ethical Standards Policy that governs the behavior of board members, management, and your staff and adheres to these provisions. This document is to be signed annually and is to be enforced;
7. Maintain proper administration and financial records and if possible conduct external audits of your financials annually. For small companies in Curaçao, if an audit is breaking the bank for you, then having an accountant conduct an Annual Review may be an answer.
8. Incorporate some level of risk management in the framework of your company and let that be a part of the Board of Director's review. If you are running your company, you must know what the potential risks are, how to measure them and how to manage them, should they occur.

Once management adopts and applies these practices, it feeds into the company's culture and therefore discourages and removes the potential environment for employees (management and lower staff) to pursue fraudulent activities that may jeopardize the integrity of the company.

As a company, whether small, medium or large, it is in the best interest of the sustainability of your company to adopt sound corporate governance practices to ensure that your company is around for the long haul.

Good corporate governance is said to lead to improved reputation; reduced likelihood of fraudulent activities in the organization through better internal control system; improved access to the capital market as you are more likely to be listed or have your bond listed and most notably it ensures corporate success and economic growth. Why would you want to miss out on this? Why would you not demand this from the companies that you wish to invest in?

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This editorial is presented to you by the DCSX with the collaboration of Vertex Investments.

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