Corporate Governance in IT Companies

The importance of corporate governance became very clear in 2002 after a series of corporate meltdowns and frauds caused the loss of billions of dollars in shareholder investments as well thousands of jobs. Many companies filed for bankruptcy, and criminal investigations were initiated against many corporate executives. Enron Corporation, Tyco International, and WorldCom were among the names in headlines on a daily basis. Suddenly, everyone started showing an interest in corporate governance. New legislation was passed by the US Congress. The New York Stock Exchange (NYSE) and NASDAQ introduced new standards demanding that companies improve their corporate governance to maintain their listings.

Corporate governance is related to creating wealth for shareholders in both the near and long term. It requires a complex system of checks and balances. There are three key actors on the screen of corporate governance: shareholders, management, and the board of directors. The aim of corporate governance is to ensure that corporations follow the law and
regulations. In addition, there is a public relations benefit to being a good corporate citizen. At a more micro level, governance is all about making sure that the organization delivers on its promises to both employees and customers and that both groups end up satisfied.

What follows is a broad overview of governance issues. It’s not meant to be comprehensive, nor provide legal guidance. Laws vary from jurisdiction to jurisdiction.

The Corporation and Its Control

A corporation is a formal legal entity that is publicly registered for doing business. The privileges and liabilities of a corporation are separate from those of its members. There are many forms of corporations, and most are created to do business. They are governed by corporate law, which is designed to protect the interests of management, employees, and shareholders.

Under the law, corporations are afforded limited liability. In the case of bankruptcy, for example, shareholders may lose their investments and employees may lose their jobs. But neither will be personally liable to company creditors except in rare cases. Like human beings, corporations have rights and responsibilities under the legal system. They can be booked for criminal offenses such as fraud. Corporate shares are also are freely transferable. A corporation can exist beyond the lifetime of its investors and shareholders. This feature provides corporations much required stability, as well as the capability of accumulating wealth and doing mega projects. Such features make corporations a very attractive business entity.

A corporation can have voting and nonvoting members. The company is usually controlled by a centralized management under a board of directors elected by the shareholders. The chief executive officer (CEO), president, chief financial officer (CFO) and other top officers are usually appointed by the board of directors to manage the strategic and operational affairs of the corporation. While shareholders naturally have some influence—some say not enough in publicly held companies—big creditors such as banks and other financial institutions can also have a control over the affairs of corporations. In some cases, these creditors may have one or more members on the board, which can influence the decision making. When the board makes a decision to liquidate or dissolve a for-profit corporation, shareholders get whatever is left over after paying off creditors and other parties that may have interests in the corporation.