Corporate Governance & Accountability in Iran

By: Dr.Gholamhossein Davani *

Corporate governance ***(CG)*** is a hot topic currently. It gets a lot of press, particularly in the areas of compensation and board activism. Corporate governance without accountability has no meaning. It seems corporate governance is one part of Good governance ***(GG)*** and GG &CG prefect each other.

Good governance defines an ideal which is difficult to achieve in its totality. However, to ensure sustainable human development, actions must be taken to work towards this ideal. Major donors and international financial institutions, like the IMF or World Bank, is increasingly basing their aid and loans on the condition those reforms ensuring good governance are undertaken. Good governance can be understood as a set of 8 major characteristics:

- participation,
- rule of law,
- transparency,
- responsiveness,
- consensus oriented,
- equity and inclusiveness,
- effectiveness and efficiency
- Accountability.

The most important above factor is accountability that is a concept in ethics with several meanings. It is often used synonymously with such concepts as answerability, responsibility, blameworthiness, liability and other terms associated with the expectation of account-giving. As an aspect of governance, it has been central to discussions related to problems in both the public and private (corporation) worlds.

In politics, and particularly in representative democracies, accountability is an important factor in securing good governance and, thus, the legitimacy of public power. Accountability differs from transparency in that it only enables negative feedback *after* a decision or action, while transparency also enables negative feedback *before* or *during* a decision or action. Accountability constrains the extent to which elected representatives and other office-holders can willfully deviate from their theoretical responsibilities, thus reducing corruption. The relationship of the concept of accountability to related concepts like the rule of law or democracy, however, still awaits further elucidation.

Social responsibility is a doctrine that claims that an entity whether it is state, government, corporation, organization or individual has a responsibility to society. This responsibility can be "negative," in that it is a responsibility to refrain from acting, or it can be "positive," meaning a responsibility to act.

Corporate social responsibility (CSR) is an expression used to describe what some see as a company’s obligation to be sensitive to the needs of all of the stakeholders in its business operations.

In my view, there are many misconceptions surrounding the subject. For example, I feel it is dangerous to conclude, as some have, that Iranian firms have lost their edge, that inadequate corporate governance is the villain, and that the large pension funds have a magic key to success. Certainly there have been compensation excesses and management failures, but overreaction to them entails its own dangers. However Tehran Stock Exchange ***(TSE)*** has been published draft of ***CG*** Bylaw and ***Admission& Inspection*** Manual of listed audit firm. So it is important that everyone, business and government alike, consider all sides of this complex issue and learn everything we can, before adopting radical change. According to this draft all big listed Co. shall behave audit committee under responsibility of one of non-executive managers. For the first time this draft have been review some matters as follow:

- Partner Rotation-Transition Questions
- Audit Partner and Partner Rotation-Other Matters
- Non-audit Services
- Audit Committee Pre-approval
- Audit Committee Communications
- Fee Disclosures
- "Cooling Off" Period

A company’s stakeholders are all those who are influenced by, or can influence, a company’s decisions and actions. These can include (but are not limited to): employees, customers, suppliers, community organizations, subsidiaries and affiliates, joint venture partners, local neighborhoods, investors, and shareholders (or a sole owner).

The relationship among the CEO, top management and the board of directors is a complex and a fascinating subject, which has developed over many decades. As we know from reading the papers, it continues to evolve. That's due at least partially to the growing presence of big institutional investors. Pension funds, mutual funds and insurance companies now own more than half of publicly held stock in the Tehran Stock Exchange

(TSE). Increased globalization of business has also played a part. As the dimensions of competition have changed, institutional shareholders have demanded more accountability from management than in the past. And that demand has given rise to definitional issues: ROE, ROIC, total return, public responsibility, social responsibility, etc.

Also, individual investors' greater awareness of issues and events has increased public scrutiny of management on both financial and societal issues.

Boards of directors today are much more actively involved in company matters than they used to be. Generally, I think increased board involvement is a positive development in company management. If a board nominee is not prepared to be an active, inquiring, participating director, he or she should decline the offer to serve. But board members, who attempt to micromanage, assume management's authority or exercise authority without attendant responsibility can be a negative factor.

Demands on the chief executive have multiplied. A broad spectrum of societal issues has become an important matter of everyday business concern (the environment, diversity of workforce, etc.) At the same time, competition has intensified and become global, increasing pressure on management for financial results, raising the stakes on decisions, and narrowing the tolerance for mistakes.

These trends mean the CEO needs all the wise counsel he or she can get. A board of directors composed of able individuals with diverse backgrounds and experience, can be a valuable ally to the CEO. This was certainly the case during Texaco's crisis period. The backing of our directors, with their counsel, support and friendship, helped management through many a dark hour.

Corporate power is a trust

Corporate leadership carries with it the trappings of power-squads of good people to direct, a handsome office, perhaps even a corporate plane. But it is important that neither the CEO, nor other employees, nor the public at large be fooled by these trappings into thinking that this is untrammeled power.

For corporate power is a trust. The CEO is and must be accountable to a board of directors. And in turn both that board and the CEO are accountable to the shareholders, employees, government and the public.

The system that implements this accountability is what we call corporate governance. And just as with civil government, there is a diversity of views on how this system should be constituted, peopled and organized.

There is no one answers-nor is it always easy to determine if a particular corporation's governance is working. When a company is growing and profitable almost any system of corporate governance works, or at least seems to do so in the short term. By the same token, when things are going poorly in an industry, no system of corporate governance alone provides an inexhaustible supply of silver bullets to cure whatever needs to be cured. The true test of a company's system of corporate governance comes at other times-when the firm has lost its way within its industry, or when the firm has been jolted by outside forces over which it has no control. A company's system of corporate governance includes the nature and quality of its relationships and communications with shareholders, employees and the public at large. But the heart of the governance system is the board of directors, which is elected to represent shareholder interests, to oversee management and to hold it accountable. In difficult times, when a strong signal from the top is needed, the board can either be a tremendous force for the better-- or it can keep its eyes firmly shut, and represent a real obstacle to productive change.

Arj Co. listed company in TSE faced a special crisis in 2000, with a massive court judgment against it following the file for fraud and corruption. The board of directors proved then to be a vital and united force for the changes we made to protect shareholders and to reengineer the company. And service for many years on the boards of other well-known companies has brought me to the conclusion that no firm is forever free of crisis-that corporate excellence, competitive standing, ethics and reputation are all subjects that will concern any board at some time.

For that reason, a good board of directors is like a two-- ocean navy: You had better start building it years before you need it. Good boards do not just appear overnight, nor do they spring fully blown from the mind of some headhunter. They are conceived, nurtured, trained, instructed, advised and rewarded over a period of years so they will be there when they are most urgently needed.

The board of directors must above all be the conscience of the company. It must ensure that shareholders' interests are paramount. It must safeguard the company's assets. And it must take particular care to safeguard the company's reputation. For a good reputation is the company's most precious asset-one that takes years of hard work to develop and one that can be destroyed in an instant by illegal, unethical or merely thoughtless behavior.

A board's role is wide-ranging, which in turn requires individuals of great depth. It has been said that being a corporate director is one position for which no training is required. But the truth is that the director brings his or her whole life's experience to the table. The position requires an ability to learn what it is important to know about a business, and a willingness to study hard, ask questions, and form opinions. A director must have the intellectual curiosity to analyze a situation, must know how to raise concerns without being argumentative, and must relate well to fellow board members. The most helpful directors I have seen are those who study the company, ask questions because they really want answers, and provide supportive criticism.

A good director must also appraise the company's top officers and its major hires and promotions with a critical eye. Even the best CEO can use help with these decisions because they are not easy. It's not terribly difficult to assess a candidate's record in his or her current job, of course; but it is both more difficult and more important to project how he or she will perform in a new, more demanding position. The attainment of greater authority and responsibility can sometimes change the behavior of the promoted manager.

(In this regard, my own inveterate optimism led me several times to make the mistake of believing that known strengths in an individual would more than compensate for known weaknesses. The tiger and the leopard don't often change their stripes and spots.) Management selection is an art as well as a science and outside directors can therefore often be invaluable in giving the CEO a second opinion in these matters.

For an industrial board, an ideal size is 7 to 9 outside directors. Any number much greater than that becomes unwieldy, but a smaller number doesn't allow committee participation without undue time pressure. The majority of directors should be outsiders. It's appropriate to have two or three insiders to add functional expertise and to provide for succession planning.

Separating CEO and chairman roles

Some critics of current corporate governance practices have suggested that the offices of chief executive officer and chairman of the board should always be held by different individuals. The theory seems to be that various complementary skills can be brought to bear without too much power being vested in one person: The CEO runs the company while the chairman communicates with the board.

While this system has worked well in some instances, it does not guarantee good performance by itself. I was very fortunate to have served as CEO with an (executive) chairman whose talents complemented my own, during a very difficult period in the history of our company. The system worked well for us because we made it work. It was particularly helpful at a time when there were many balls in the air, each requiring immediate attention. But there is no hard-and-fast rule here; the question of separating the offices of CEO and chairman should be considered based on the situation at hand and the personalities of the available candidates.

Whether the offices are separated or not, there must be no confusion as to who is in charge of what, and there must be clear, timely, complete and honest advice rendered to the board by management.

Board committees are very useful in the areas of nomination, audit, finance, pension, compensation and public responsibility. Serious or wide-ranging matters, however, should also be discussed by the committee of the whole, so the thought never arises that some members are more equal than others. An executive committee can be maintained for emergencies-but in these days of advanced communications technology "virtual" meetings of the whole board can be held at almost any time and are generally preferable to the use of an executive committee.

Special focus in recent years has fallen on the compensation committee of the board. Attractive compensation packages are needed to retain high-quality employees. But as firm after firm seeks to pay in the top quartile of its industry or size sector, it is a mathematical certainty that average compensation will increase exponentially. Fair, competitive compensation practices can be reflected in the price of the goods or services being sold; overly generous compensation cannot be recovered in the marketplace and is thus unfair both to the shareholders and to the customers. It is incumbent on the compensation committee to insist on performance goals which, if achieved, will inure to the long-- term benefit of all the shareholders-measured by the rate of change in earnings per share, cash per share, total return to shareholders versus one's competition, and results versus plan.

Given the importance of the company's reputation, a public responsibility committee is increasingly vital to a board's work. It must deal with a spectrum of issues, ranging from the environment to diversity in the workplace, from educational philanthropy to the question of a corporation's place in the funding of the arts. Its responsibilities can include shareholder relations, political involvement, women's issues and related subjects.

Boards must not become static. Having a retirement age is a useful rule, although having one below age 65 is wasteful of talent and experience. A director should offer his or her retirement from the board whenever his primary job changes; the board may not accept it, but the other directors should at least have the opportunity to review the situation. Unfortunately Iranian companies haven't any special retirement plan for directors and all staff is under governmental pension fund or Social security organization that their benefits are very limited.

Whatever the exact structure chosen, leadership on a board must be unequivocal. Committees can perform many useful functions by analyzing, reviewing, comparing and reporting their findings. But great companies are led by great people, not by great committees. In the times of crisis we experienced, when the going really got tough, fifteen pairs of eyeballs swung to one end of the table as though to ask, "OK, friend, what do we do now?" Leadership must be prepared to answer.

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Some of these terminologies are new in Iran economic area and I am not sure that STE can executive some of these matters so TSE encounter with many difficult in process of establish Corporate Governance in capital market of Iran because more than 85% of gross national product and all big listed investment companies, brokers, pension funds are each under hand of governmental institutional which don't interest

Accountability and corporate governance but we don't have any way to development privatization and public participated to capital market and executive of article 44 of continuation law.

Auditor's inspection

According to the Admission & Inspections Manual all listed audit firm shall be have minimum conditions as follow:

- Minimum 5 partners
- All auditors shall be member of IACPA
- Minimum total issued audit report before admission shall not be less than 50
- Quality control of audit firm with more than 10 listed clients will be every year and between 5 till 10 clients every two years and less than 5 clients every three years
- Prohibition of Audit & non-audit services for clients onetime.
- Auditors' Quality control and supervision will be done by joint committee of TSE and Iranian Association of Certified Public Accountants (IACPA)
- Members shall keep appropriate records and submit copies of such on request of the TSE

In the other hand according to this manual TSE establish Joint Cooperative committee with IACPA to Inspection and supervision of quality control of audit reports. This committee requires conducting a continuing program of inspections of registered public accounting firms. In those inspections, the Committee assesses compliance with the Act of capital market and professional standards, in connection with the firm's performance of audits, issuance of audit reports, and related matters involving issuers.

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