



## Corporate Governance Assessment

One of the most important challenges for board members is to build a foundation of trust — with management, the investment community, regulatory agencies, and the public. The stakes are high and the margin for error is low. While new standards are emerging, one thing remains clear: the responsibility for adopting sound governance practices has been placed squarely on the shoulders of corporate directors and officers.

### How KPMG can help

Your board of directors needs to be able to perform with unquestioned ability and integrity. A strong foundation — supported by the right roles, structures, culture, information, and resources — is critical.

KPMG has developed a strategic framework that enables a board to self-assess its existing governance practices and to build consensus for desired changes. Such an assessment is not only prudent but also responsive to increased stakeholder expectations for board self-evaluation.

KPMG's self-assessment framework (see below) examines board operations and focus areas to help determine whether the board is positioned to fulfill stakeholder needs.

For example, the self-assessment helps boards identify what can be done to strengthen their ability to answer the following questions:

- Does the board have the right organization and composition?
- Are the board and management aligned on the company's strategic direction and goals?
- Does the board receive adequate information to understand and oversee the activities of the organization and their risks?
- Does the organization have robust processes in place for monitoring internal and external audit functions?
- Is the board knowledgeable about the organization's compliance with regulations and laws?
- Are the company's values and standards effectively guiding business decisions and behavior?
- Does the board's stewardship provide for transparency, accountability, and responsiveness to stakeholder concerns?



### Benefits

Strengthening governance practices is about building an effective governance model based on the strategy, heritage, culture, operations, and risks of the organization. It is about making practices that look strong on paper effective in practice.

Doing so can help the board develop the foundation needed to:

- improve group dynamics and harness individual talents;
- focus on the strategy, opportunities, and needs of the business;
- establish early-warning mechanisms for critical risks;
- mitigate exposure to liability;
- build credibility and trust with stakeholders;
- serve as a strategic asset to the company; and
- satisfy increased stakeholder demands for annual board self-evaluation.

### Today's drivers

KPMG has identified five key drivers affecting senior management and the board:

- *Rapidly changing market conditions.* When the challenge is to manage and respond to constant change, an effective governance framework is essential if the board is to receive appropriate and timely information.
- *Shareholder value.* Research<sup>1</sup> shows that investors will pay a premium for an organization that exhibits good governance

practices, which means that demonstrating high standards of governance allows directors to take actions that contribute to increased shareholder value.

- *Shareholder interaction.* The influence of major shareholders and other stakeholders is growing. Today's investors demand high standards of governance and are increasingly active in exercising their ownership rights.
- *Regulators.* Compliance with laws and regulations is ever more important in an increasingly regulated environment. The direct costs to ensure compliance can be insignificant when compared with the reputational damage caused by adverse publicity and unwanted media attention as a result of non-compliance.



- *Capital markets.* Increasingly, capital is available only to those companies that meet internationally accepted standards of governance and disclosure.

### Why choose KPMG?

KPMG has analyzed leading governance practices and can leverage this learning to help your board assess its governance practices in the context of the business environment and your company's business risks. Our professionals are backed by the insights, knowledge, and experience needed to help the board identify alternatives, gain consensus, and deliver practical results.

### Contact us

For more information on how KPMG can help your organization, please contact us at [cga@kpmg.com.hk](mailto:cga@kpmg.com.hk)

<sup>1</sup> McKinsey & Co., "Global Investor Opinion Survey: Key Findings," July 2002.