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What is "corporate governance"?



I'm putting together a handbook for newbies in our field and I'll be rolling out some excerpts in this blog over time. Here's the first installment:

Corporate governance is a field that has exploded in importance over the past 20 years. Although corporate governance has always existed, it didn't become a household name until the Enron scandal and WorldCom implosion early in the 2000s led to Congress enacting the Sarbanes-Oxley Act of 2002. That law dramatically altered the disclosure obligations of public companies when it comes to their governance practices. It also forced the NYSE and Nasdaq to adopt listing standards requiring listed companies to maintain certain governance standards and practices.

At its core, "corporate governance" is how a company is governed. It's often described as a three-legged stool with senior management, the board of directors, and the company's shareholders all playing major roles. Sometimes each of these three bodies work in unison towards a common goal. Sometimes they are at odds with each other—particularly shareholders who might not see eye-to-eye with a business strategy that management and the board has devised.

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