

Good governance and its role in decision making

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GOVERNANCE can be all encompassing and at the same time, ephemeral. It has increasingly become a topic of interest to those in the financial sector, driven by high impact and embarrassing failures both at home and abroad and implications for the wider economy.

With the interest of the wider economy, it could mean many things to many people. So perhaps we should start with definitions.

There is legalistic governance, as practised in the US, where senior management has to 'sign in blood'. Should they be caught at breach, they shall face wrath in courts -- in theory.

The key benefit of this approach is that it is relatively easier to enforce in a consistent and robust manner. On the other hand, this approach lacks consideration of an organisation's distinctive features, including culture.

There is also behavioural governance, as practised more commonly in the EU. This is where the regulators task firms to demonstrate key principles or behaviours, leaving it up to the firms to design its own approach.

This is, to some degree, the opposite of legalistic governance. Consequently, when firms take the initiative to design approaches themselves, the solutions themselves have sustainability built in. However, they can find it challenging to explain to stakeholders, including the regulator, why a less common approach is suited, and can have repercussions.

In my years as the governance and risk subject matter expert at the Bank of England, we would often have to balance both the above aspects. We aimed to ensure that we provide incentives for culturally effective approaches (behavioural), while making clear that there are repercussions to not meeting the regulatory requirements (legalistic).

Bangladesh Bank's approach matches this too. Essentially, it aims to encourage firms to not only meet the letter of the law but also, the spirit of the law.

Simply put, good governance is about having processes to make and implement decisions in a disciplined yet adaptable way. It is not about making correct decisions, but about the best possible process for making those decisions.

When analysing what the differentiating features of resilient firms are, a few common themes emerge. These are



STAR/FILE

There should be discussion at all levels on what good governance means for an organisation -- by taking the standards set for banks as principles.

a high degree of personal accountability at the board and senior management, while being sensitive to the difference between responsibility and accountability. The board also demonstrates a robust risk culture and is able to access any information and provide effective challenges.

The risk culture emphasises the importance of understanding risks, managing risks, promoting accountability and acting responsibly thereby protecting the firm and its stakeholders.

Above all, these firms have culturally tailored their approach to governance -- appreciating that not only do they have to do things better, but also do better things.

In designing governance solutions for clients, I made sure that the firms understood the regulatory view (UK and EU) -- that the regulator is likely to be somewhat

sympathetic of firms that have good governance processes, but made some sub-optimal decisions compared to firms that have made good decisions without due process. I also found the governance issues harder to remedy at the latter types of firms.

This ethos broadly holds true for firms in Bangladesh as well. Good governance, in the front line, feels like good decision making. As such, it evidences organisational discipline, consistency of approaches, fairness of the decisions, efficiency of the processes, and high quality behaviours of management.

These dimensions hold true, be it governance of modest projects, complex organisations or within governments. Some organisations argue that these feelings of fairness and discipline are nice to have, but ultimately, does it improve

the bottom line, and if not, why should they care?

I have been asked this question, more aggressively, by the CEO of one of the top three US insurers. At that time, I impressed upon him how intelligently designed "governance layers" can proactively manage the risk profile, saving both financial and public embarrassments.

Increasingly, research is showing that good governance provides the foundation for strong risk management practices and superior operating performance for organisations and that share prices implicitly assume sound governance, which leads to severe erosion of value once governance failures surface.

At a discussion forum with CEOs of all the banks, the topic of governance came up. They highlighted areas such as the role of independent directors, the importance of sound governance and risk culture and how to have high quality and disciplined interaction between boards, management and divisions.

The banks' role as financial intermediaries has a major bearing on how efficiently the economy allocates its resources between competing uses. Put simply, it is the heart of the economy, pumping resources where it is needed. This has some distinct implications for us.

First, as banks play such a critical role in the economy, when they 'sneeze' all of us are bound to 'catch a cold' -- be it directly (such as a collapse obliterating our savings) or indirectly (such as collapsing funding of critical development projects). As such, banks in both developed and developing economies are regulated tightly and, in theory, held to the highest standards.

We would be wrong, however, to think that these standards are for banks and related institutions alone. There is an increasing gap between what the Companies Act requires of all firms (legalistic governance) and what effective governance means (behavioural).

There is a saying that 'some learn by seeing, and some learn by doing'. As we target the goal of becoming a middle income country, we cannot rely on 'learn by doing'. Quite frankly, we do not have the time.

Now is the time to have discussion at all levels on what good governance means for your organisation -- by taking the standards set for banks as principles and tailoring them to upgrade how decisions are made.

The writer is an adviser at Bangladesh Institute of Bank Management and was previously the enterprise risk director at Moody's (Europe).

Travellers' delight: falling oil prices mean cheaper air fares

AFP, New York

PLUMMETING oil prices have led to falling plane ticket prices -- and prospects for an even bigger bonanza of consumer-friendly fares in the coming months, airline industry experts say.

With fuel prices down by two-thirds from the dizzying heights of mid-2014, when oil topped \$100 per barrel, the once cash-strapped airline industry is now reaping record profits.

Increased competition also has helped coax down once stubbornly high fares, the experts say.

"We've seen typical domestic prices drop about 14 percent over the past year," Patrick Surry, chief data scientist at Hopper, the airfare prediction app, told AFP.

"The drop in fuel prices is a major factor, along with increasing competition from low cost carriers, both domestically and internationally," Surry said.

Experts say fuel makes up about a third of an airline's costs. With oil and jet fuel costs down two-thirds since last year, airlines can expect to

reduce their overhead by about 20 percent.

Some of the best bargains are for air fares to popular US travel destinations like Chicago, New York, Los Angeles, and San Francisco, cities where competition is stiff.

Good deals can also be had on routes to the southwestern US energy meccas of Houston and Dallas, where the slowdown in the oil business has led to discounted air fares.

Some companies said they are using the windfall in fuel costs to reduce debt and to make needed reinvestment in their infrastructure.

"We are utilising our cash to continue to secure our future," said Gerry Laderman, senior vice president at United Airlines.

"In 2015, we prepaid \$1.2 billion of debt, including \$300 million in the fourth quarter."

Likewise, Richard Anderson, CEO at Delta, said of his company: "Our focus on our long-term goals is unwavering. We will continue to reinvest in the business at an appropriate level to sustain long-term

growth."

The US Bureau of Labor Statistics in a report earlier this month (January) said air fares by foreign travelers on US airlines fell 15.0 percent in 2015, the largest calendar-year drop since the index was first published in 1987.

The decline in ticket prices was steepest for air travel to Latin American and Caribbean (down 17.8 percent), but there were also big drops in fares to Asia (down 14.6 percent) and Europe (down 11.7 percent).

Travel industry experts said that the relatively low prices were likely to continue throughout 2016, including an anticipated 23 percent drop in the price of air fares to Rio this summer, just in time for the Olympic games.

But there will be plenty of bargains for those traveling to other destinations as well, said Scott Kirby, president of American Airlines.

"There's lots of low fares in the market," the airline CEO told reporters. "Consumers are having a field day in this environment," he said.

Oil falls on China data, fading prospect of Opec action

REUTERS, London

OIL fell on Monday as weak economic data from China, the world's largest energy consumer, weighed on prices and an Opec source played down talk of an emergency meeting to stem the decline.

China's manufacturing sector contracted at the fastest pace since 2012 in January, adding to worries about demand from the world's second-biggest economy at a time when the market is already weighed down by a large supply overhang.

"The weak China PMI (purchasing managers' index) is driving down prices because China weighs on the entire commodities sector from the demand side of the equation," said Carsten Fritsch, senior oil analyst at Commerzbank in Frankfurt.

Brent April crude futures LCOc1 were down 35 cents at \$35.64 a barrel at 5:23 am ET. The March Brent contract, which expired on Friday, settled at \$34.74 a barrel.

US West Texas Intermediate (WTI) Clc1 was down 57 cents at \$33.05 a barrel.



REUTERS/FILE

Pump jacks are seen at an oil field outside the West Siberian city of Kogalym, Russia.

A senior Opec source told a Saudi Arabian newspaper it was too early to talk about an emergency meeting of the Organisation of the Petroleum Exporting Countries.

Oil prices jumped last week after Russian energy officials said they had received proposals from Opec lynchpin Saudi Arabia on managing output and were ready to talk.

"We do not expect such a cut will occur unless global growth weakens sharply from current levels, which is not our economists' forecast," investment bank Goldman Sachs said in a report.

Opec member Iran, which last month was allowed to return fully to markets after years of sanctions, is so far unwilling to participate in cuts.

Renault opens first China factory

AFP, Wuhan, China

FRENCH car giant Renault opened its first car factory in China on Monday, the last major manufacturer to set up a plant in the country as it looks to tap into the world's biggest auto market.

The \$1.2-billion facility in Wuhan, a carmaking hub in the central province of Hubei, is a joint venture with Chinese manufacturer Dongfeng and will have an initial production capacity of 150,000 vehicles a year.

China's total auto sales grew at their weakest pace in three years in 2015, as a slowing economy and a stock market rout slammed into demand.

But the country remains "a growth driver for the global auto industry", Renault CEO Carlos Ghosn said at the inauguration.

The factory was a "first big step" for the development of the Dongfeng-Renault joint venture and for the growth of Renault, he added.

China is crucial to foreign auto makers, both as the world's largest market and a key source of revenue outside Europe and the United States, but until now, the French firm has largely allowed its Japanese alliance partner Nissan to take the lead. Renault sold a mere 15,850 vehicles in



AFP

A Chinese worker checks part of a Kadjar car at the production line of France's Renault and China's Dongfeng Group factory in Wuhan yesterday.

China last year, down 50 percent on 2014, mostly SUVs built in South Korea. That gave it a market share of less than 0.1 percent.

But Ghosn said the country was a "core part of Renault's strategic plan", and that its long-term goal was a market share of

an ambitious 3.5 percent.

Renault and Dongfeng have invested 7.6 billion yuan (now \$1.2 billion) in the plant, which is spread over a 95-hectare (235-acre) site and currently employs 2,000 people.

At first the Wuhan factory will build

Kadjars, Renault's latest crossover model, a key sector for Chinese consumers.

"We see this niche exploding in China, and it's not going to stop," said Jacques Daniel, CEO of the joint venture. "We're arriving late, but with the right product."

But he acknowledged that the current situation in China was challenging.

A total of 24.60 million cars were sold in 2015, according to the China Association of Automobile Manufacturers (CAAM) up 4.7 percent on the previous year, but only about a third of the near-14-percent growth seen in 2013.

Also, the economy, the world's second largest, grew 6.9 percent in 2015, its slowest pace in 25 years.

Car makers responded by slashing prices while some even cut production.

The market for high-priced luxury cars has been hit by a government crackdown on corruption and an austerity campaign, launched after President Xi Jinping took office three years ago.

The Chinese industry group forecasts sales will still gain around six percent to top 26 million units this year.

US auto giant General Motors was the top foreign brand in China last year, delivering a record 3.61 million vehicles, to beat German rival Volkswagen, which is struggling with a global scandal over emissions cheating.

ATR says signs 1b euro planes deal with Iran

AFP, Paris

European manufacturer of turboprop aircraft ATR said Monday it had signed a one-billion-euro deal with Iran Air for up to 40 planes after the dropping of US sanctions against Iran.

Under the accord inked in Tehran, ATR is to provide the Iranian national flag carrier with 20 ATR 72-600 planes, with options on another 20 planes.

It follows talks in Rome and Paris last week during a visit by Iranian President Hassan Rouhani following the lifting of sanctions over the Islamic Republic's nuclear programme.

"The deal marks the arrival of the newest generation ATRs in Iran, where the first aircraft have been operating since 1992.

ফ্লোর ভাড়ার বিজ্ঞপ্তি

বিজেএমসি এর মালিকানাধীন ৩৭, দিলকুশা মতিঝিলে ৬০,১০০ বর্গফুট এবং ৩০টি কার পার্কিং এর স্থান ভাড়া হবে।

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