**MIDTERM PAPER**

**CORPORATE GOVERNANCE**

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### Q.1. WHAT ARE THE BASIC CHARACTERISTICS THAT GOOD GOVERNANCE SHOULD HAVE? INTRODUCE AND CONCISELY INTERPRET THEM.

### The characteristics of good governance

There are different characteristics of Good governance e.g. participation by both genders, transparent, consensus/collaborative, efficient and effective, accountable, follows the rule of law, inclusive and equitable etc. Good governance assure minimization of corruption. Good governance take views of minorities in consideration. It brings to front the voice of those who are vulnerable to problems in the society. Good governance also also responsive to the needs of society.

#### 1. Participation

Engagement of both genders is an integral pillar of good governance. Participation may be either through valid intermediate or direct or through representative institutions. It is very important to keep in mind that in representative democracy it is not necessary that policy will taken in concern the most vulnerable people of society in decision making. Participation should be organized and informed.Freedom of expression and association should be there with an organized civil society.

#### 2. Rule of law

In Good governance proper implementation of fair legal frameworks are required. Good governance also take care of the protection of rights of the people in the society, especially the right of those who are in minorities. Good governance is always decorated with Impartial law enforcement, independent judiciary and incorruptible police force.

#### 8. Accountability

Accountability is the main requirement and key of good governance. Both public and private sector organizations and institution must be accountable to their institutional stakeholders and also to the public. In general any institution or any organization is accountable to all those can get affected by their action or decisions taken by them. Transparency is mandatory for accountability. Without transparency rule of lawa and accountability cannot be enforced .

#### 4. Transparency

In good governance transparency means that enforcement done and decision are taken in a way in which rules and regulations are properly followed. In Good governance for transparency information are directly accessible and is freely available to all those who are or will be affected by the decisions taken and their enforcement. For maintaining transparency enough easily understandable information is provided to the media.

#### 7. Effectiveness and efficiency

In Good governance the institutions and processes produce results in accord to the needs of the members of society. Efficiency in good governance also refers to the protection of environment and sustainable use of all the available natural resources .

#### 3. Consensus

Views of people in a society is always different. In Good governance it is quite necessary to understand that what are views of society, what is in the best interest of the society and how can the role of the a mediator be played by the government. Good governance need to know long term goal regarding human development and also need to understand that how that goals can be achieved.

#### 4. Responsiveness

In Good governance it is mandatory that all the institutions should serve all stakeholders within an acceptable and reasonable time-frame.

#### 6. Equity and inclusiveness

Well being of a society pillared upon if all the members of society feel that they have stake in the society and if society members do not feel themself aliens or excluded from the society. For this, all groups and especially the most vulnerable are given opportunities for their improvement and advancement.

### Q.2. INTRODUCE BASIC FORM OF BUSINESS THAT EXISTS IN THE CURRENT FINANCIAL MARKET. WHAT ARE THE BASIC SOURCES OF FINANCING THAT COULD BE ADOPTED FOR ANY BUSINESS? EXPLAIN IN DETAIL.

### BASIC FORM OF BUSINESS

### There are three main forms of business.

* **Single Proprietorship**
* **Partnership**
* **Corporation**

### **Single Proprietorship**

### Business owned by one person and also managed by the same person is known as single proprietorship. This includes, lawyers, doctors, plumbers, electricians and other people with the same kind of business/service who do business for their own selves. Almost all kind of retail and service businesses are included in single proprietorship. None of legal formalities are required for organizing these kind of businesses. These businesses are started with low investment.

### **Partnership**

An unincorporated business or company owned by two, three or more partners is known as partnership. Sometimes the people that own the company also run the business themselves e.g. medical practitioners like doctors, dentists etc. and others. In partnership every partner is liable not only for their own deeds but also for the actions of his/her other partners. If, by chance one partners is forced into bankruptcy, the creditors involved in their business can go after other partners for their outstanding debts due to partnership.

### **Corporation**

### A business formed/established by following the laws of the state and owned by unlimited number of stockholders is known as corporation. All small and large businesses are incorporated. Corporation is unique due to it’s legal business entity. Corporation owners include shareholders and stockholders. For management of the corporation a board of directors is elected for representation of their interests.

**BASIC SOURCES OF FINANCING IN BUSINESS**

### Major Sources available for financing business are debt, equity, retained earnings, working capital loans, venture funding, cash, mortgage, stock, debts etc. Different sources are used in different situations during business. These sources are classified on ownership, control, time period and also source of generation. Sources of capital are necessary to be understand properly, especially for entrepreneurs who are intending or are about to start their new business. Capital is the most toughest part of all the efforts that are made for business.

### **Credit?**

### The term Credit is broad as it got different meanings in the world of finance. Generally, it can stated that credit is a agreement of contractual nature in which a borrower receive/get something of value (now) and under some terms agrees to payback the lender in a decided (later date)— with interest in case of business.

### **Loan**

### In business any finance which is used for funding business expenses like paying or purchasing is known as loan. Business loans can be availed from banks, trusted bodies, online lenders, credit unions etc. In loans Interest rates can be variable or fixed.

### **Cash in Business**

### Cash is like blood in body of business. In order to overcome it business expenses; a company needs to have enough money in its account to pay for his running business expenses, like paying salaries, paying installments, creditors and supplies etc. If a company don’t have enough money/cash in account/hand, it may borrow money (debt).

### **Business mortgages**

### In Business mortgages are set for a company or individual. For example if they are purchasing a property which they are intending to use as a business premises. These business mortgages are also found in shape of residential, commercial, like shops, flats etc.

### **Debt**

### Debt financing, on the other hand is cash borrowed at a fixed rate of interest from a lender by setting a date for refund. The principal amount must be returned back on the date decided by both parties. Periodic repayment may be part of conditions decided for loan payback. Debt may take sale of bond or form of loan. The lender of debt retains a right to the lent money and he/she/the company may demand the debt back under the specified conditions.

### **Q.3. WHAT ARE THE ESSENTIAL CHARACTERISTICS THAT ANY BOARD OF DIRECTOR SHOULD HAVE? HOW WE CAN MAKE A BOARD OF DIRECTOR MORE EFFECTIVE BY ADOPTING CERTAIN TOOLS. EXPLAIN THE TOOLS AND THEIR ROLES IN DETAIL.**

## The board of directors

The main purpose of appointing Board of Directors is to act for or on behalf of the company or shareholders for running the daily affairs of the company/business.

Key purpose of the BoD is ensuring company respect and prosperity by conjointly directing the affairs of company, dealing and solving ongoing financial issues. BoD must face all the issues and challenges relating to corporate social responsibility, corporate governance and corporate ethics.

**ROLES OF THE BOARD OF DIRECTORS**

The roles of the board of directors include :-

* Establishing vision, mission and values of company
* Setting structure and structure
* Delegate to management
* Practicing and ensuring accountability

**FOR MAKING BOD MORE EFFECTIVE**

For making BoD more effective one needs to overcome the following weaknesses:

* **Lack of clarity**on the performance and roles of individual directors.
* **Lack of clarity**on the performance of board as a whole.
* **Poor process management**which leads to ineffective meeting management, board preparation, and communications.
* **Poor team dynamics**weaken the boards and always lead to power struggles. Effective board should be consisting of those professional peers that work well and respect and each other.
* **Board composition**is a very serious issue, and always needed to be done properly. Board can not achieve its organizational objectives if board do not the have the skilled and right people.