Role of corporate governance in a company listed on London stock market

Arguably, corporate governance is an important part of any company. It entails various processes, laws, policies, customs, as well as institutions which influence the way a company is controlled. A crucial subject matter of corporate governance is the character and scope of people's accountability in business, as well as the means of decreasing the principal-agent problem. It also incorporates the relationship among stakeholders involved as well as the goals for which the company is managed. Stakeholders involved in corporate governance can be broadly classified into two categories: external stakeholders and internal stakeholders. External stakeholders include communities impacted by activities of the corporation, customers of the corporation, suppliers, trade creditors, debtors, and the shareholders, (FRC 2010). On the other hand, internal stakeholders include the employees, executives, and the board of directors. There are various rules and regulations that have been set by the government as well as the stock markets on how corporate governance in any given corporation should be undertaken. These rules and regulation have been stipulated in the various codes and corporate governance principles. For instance, there are specific rules and regulations which have to be followed for companies that have been listed on the London Stock Market. This essay will be focused on discussing the various roles of corporate governance in a company listed on the main London Stock Market (LSM).

The role of corporate governance in companies listed on London Stock Market covers five broad areas: auditing, ownership structure and exercise of control rights, financial transparency and information disclosure, corporate responsibility and compliance, and lastly, board and management structure and process. In connection to the board and management structure and process, every corporation listed on LSM should be headed by a board which will be charged with the long-term success of the corporation. A clear division of the responsibilities of the executive and the board should be drawn, in running the business of the company. Moreover, the board should be under the leadership of the chairman, who ensures its efficiency of its role in all aspects, (FRC 2010). To ensure effectiveness of the board, there should be suitable experience, skills, independence as well as knowledge of the company in both the board and its committees. Corporate governance should also ensure that new directors of the board are appointed through a transparent, rigorous and formal process. For efficient discharge of duties, it is the role of corporate governance to ensure that the board is supplied with information in a timely manner. Lastly, through corporate governance, a good relationship between the board and the shareholder should be enhanced. The progress of the business of the company is communicated to the shareholders during the Annual General Meeting called for by the board of directors, (Pol, Jeffrey, and Howard, 2010).

There other role of corporate governance is ensuring that there is financial transparency and information disclosure in the company. The LSM has set rules and regulations that should be followed to ensure that there is accountability in the governance of companies. As part of these rules and regulations, it is a requirement for companies to prepare annual financial reports that represents are fair and a representative of the position of the company at a given time. These reports should be produced on half-yearly and annual basis. The main objective of these reports is to assure the stakeholders of the company the business is a going concern, based on various supporting assumptions, (Christopher, 2004). Additionally, disclosing of material involving the company should be made at in a timely manner to guarantee that investors will access clear and factual information. Company auditing is yet another function of corporate governance. The roles as well as responsibilities of auditing committee should be outlined in a written form, which may include monitoring the truthfulness of the financial statements of the corporation, appraising internal financial controls of the company, keeping an eye on and reviewing the efficiency of the internal audit function of the company, and reviewing and monitoring the independence of the external auditor as well as the impartiality and efficiency of the auditing process, (Peter & Krisztina, 2011).

Corporate responsibility and compliance is also part of corporate governance in a company. In the corporate governance code of London Stock Market, there are defined standards that should be followed or adhered to concerning ethics in the course of their business. These are aimed at enhancing companies to carry out their business in a responsible and ethical manner, respecting not only the employees and the customers, but also the environment, (Berghe, 2005). Through effective corporate governance, companies are required to implement programs that could promote compliance, to ensure that the companies operate within an ethical and legal framework. Companies educate their employees concerning the code of ethics that have been set, to avoid ethical and legal violations. Hence, corporate governance in companies that have listed on main London Stock Market have a pivotal role to play in ensuring that corporate responsibility and compliance within the company meet the ethical and legal standards that have been set.

In conclusion, it is undeniable that corporate governance is very vital in any company. Basically, it is concerned with the various processes, laws, policies, customs, as well as institutions which influence the way a company is controlled. For the case of companies that have been listed on the main London Stock Market, corporate governance ensures that companies are governed according to the rules and regulations that have been set. The role of corporate governance in these companies broadly covers the following major areas: auditing, ownership structure and exercise of control rights, financial transparency and information disclosure, corporate responsibility and compliance, and lastly, board and management structure and process, (Christopher, 2004). Generally, through corporate governance, companies are managed within the legal and ethical framework, as well as reducing conflicts that are associated with principal-agent relationships.