

AS 8000—2003

(Incorporating Amendment No. 1)

Australian Standard™

# Good Governance Principles



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This Australian Standard was prepared by Committee MB-004, Business Governance. It was approved on behalf of the Council of Standards Australia on 23 May 2003. This Standard was published on 23 June 2003.

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Australian Standard™

**Good governance principles**

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## PREFACE

This Standard was prepared by the Standards Australia International Committee MB-004 Business Governance.

*This Standard incorporates Amendment No. 1 (November 2004). The change arising from this Amendment applies to the Committee representatives list on the inside front cover of this Standard.*

The objective of this Standard is to provide a blueprint for the development and implementation of a generic system of governance suitable for a wide range of entities.

This Standard is the 'lead' Standard in the Governance Series. When complete this series will comprise:

- AS 8000 Good governance principles (this Standard)
- AS 8001 Fraud and corruption control
- AS 8002 Organizational Codes of Conduct
- AS 8003 Corporate social responsibility
- AS 8004 Whistleblower protection programs for entities

This Standard recognizes that there are general laws in place regulating how to comply with good governance principles. The intention is not to cut across the law, but enhance the legislation. If there is any doubt as to a potential conflict between the law and this Standard, seek professional advice.

This Standard complements existing guidelines produced by IFSA and the ASX Corporate Governance Council. It is suggested that the reader refer to these guidelines where appropriate.

The term 'informative' has been used in this Standard to define the application of the appendix to which it applies. An 'informative' appendix is only for information and guidance.

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## FOREWORD

It is generally agreed that there are a number of benefits for entities that adhere to good governance principles.

For example, the Organization for Economic Co-Operation and Development (OECD) in its *Principles of Corporate Governance* states the following:

*‘Adherence to good corporate governance practices will help improve the confidence of domestic investors, may reduce the cost of capital, and ultimately induce more stable sources of financing’.*

The Australian Shareholders’ Association in its Statement of Corporate Governance Principles states:

*‘ASA believes that over time good corporate governance procedures will tend to produce better operating results’.*

The essence of good governance is accountability.

### EMERGENCE OF CORPORATE GOVERNANCE

The creation of registered companies, and the need to protect shareholders from debt beyond their investment, led to the development of basic company law from the mid-19th century. In the wake of the Wall Street Crash in 1929, the governance of corporate entities was largely left to the regulation of the securities markets. The stock market crash in 1987 and the subsequent collapse of many corporate entities around the world lead to urgent calls, particularly from institutional shareholders, for the reform of corporate governance mechanisms.

### DEVELOPMENT OF INTERNATIONAL CODES AND PUBLICATIONS ON CORPORATE GOVERNANCE

As a result of the corporate collapses around the world, a change of attitude has occurred with a much higher expectation being placed on the performance of company officers. In addition, Codes of Best Practice have been developed by most of the major industrialized countries as a direct response to the increasing number of listed companies, the need to protect shareholders’ interests and the lack of mandatory laws on corporate governance matters.

The majority of Codes are the result of the work of special committees set up by private entities such as stock exchanges, corporations, institutional investors, associations of directors, chartered secretaries and corporate managers, etc.

Increasingly corporate directors in other countries are familiar with governance developments. Australian corporate directors are likely, not only to be familiar with governance developments in Australia, but also to be familiar with key overseas developments and initiatives.

Compliance with local governance recommendations is generally not mandated by law, although the codes linked to stock exchanges tend to have a coercive effect. The guidelines used by associations of directors, chartered secretaries and individual companies tend to be voluntary.

The OECD *Principles of Corporate Governance* provide a good insight into corporate governance at a macro level as follows:

*‘One key element in improving economic efficiency is corporate governance, which involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.’*

*‘Corporate governance is only part of the large economic context in which firms operate, which includes, for example, macroeconomic policies and the degree of competition markets. The corporate governance framework also depends on the legal, regulatory and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which it operates can also have an impact on the reputation and the long-term success of a company.’*

This Standard focus on governance problems that result from the separation of ownership and control i.e. the ‘owners’ being the institutional shareholders and individual shareholders, and the control being provided by the board and entity’s management. While the concept of ‘shareholders’ does not apply strictly in the public sector and in not-for-profit entities, the general principles of corporate governance translate across to these entities with appropriate recognition of the different legal frameworks and types of stakeholders and the purpose of the entity.

Most governance principles have focussed on large listed companies in which most new practices and structures have been developed. Many of these, and most of the basic principles are relevant to smaller companies, Government Business Enterprises (GBEs) and not-for-profits and will benefit the performance and reputation of those entities which adopt them.

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**Australian Standard**  
**Good governance principles**

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SECTION 1 SCOPE, APPLICATION AND OBJECTIVES

### 1.1 SCOPE

This Standard provides a blueprint for the development and implementation of a generic system of governance suitable for a wide range of entities.

NOTES:

- 1 The roles of board members are discussed in Appendix A.
- 2 Ethical values underlying good governance principles are discussed in Appendix B.

### 1.2 APPLICATION

This document is intended to apply to:

- (a) Public companies.
- (b) Private companies.
- (c) Government entities (with governing boards).
- (d) Trustee companies.
- (e) Not-for-profit organizations.

NOTE: Refer to Appendix C.

Whilst some aspects of the Standard may be impracticable to all entities (especially small private entities) the principles represent standards to which all should aspire (refer Appendix B).

NOTE: In some instances, the terminology used within this Standard may require adaptation to suit the circumstances or structure of the particular entity. For example, terms such as 'boards', 'directors', 'shareholders', etc. should be taken to mean the equivalent term in the user entity.

### 1.3 OBJECTIVES

The purpose of this Standard is to—

- (a) assist members of boards, chief executive officers and senior managers to develop, implement and maintain a robust system of governance that fits the particular circumstances of the entity;
- (b) provide the mechanisms for an entity to establish and maintain an ethical culture through a committed, self-regulatory approach; and
- (c) provide shareholders, or stakeholders, as the case may be, with benchmarks against which to gauge the entity's performance.