After a recent financial crisis in the country of Oland, there had been a number of high profile company failures and a general loss of confidence in business. As a result, an updated corporate governance code was proposed, with changes to address these concerns.

Before the new code was published, there was a debate in Oland society about whether corporate governance provisions should be made rules-based, or remain principles-based as had been the case in the past. One elected legislator, Martin Mung, whose constituency contained a number of the companies that had failed with resulting rises in unemployment, argued strongly that many of the corporate governance failures would not have happened if directors were legally accountable for compliance with corporate governance provisions. He said that ‘you can't trust the markets to punish bad practice’, saying that this was what had caused the problems in the first place. He said that Oland should become a rules-based jurisdiction because the current ‘comply or explain’ was ineffective as a means of controlling corporate governance.

Mr Mung was angered by the company failures in his constituency and believed that a lack of sound corporate governance contributed to the failure of important companies and the jobs they supported. He said that he wanted the new code to make it more difficult for companies to fail.

The new code was then issued, under a principles-based approach. One added provision in the new Oland code was to recommend a reduction in the re-election period of all directors from three years to one year. The code also required that when seeking re-election, there should be ‘sufficient biographical details on each director to enable shareholders to take an informed decision'. The code explained that these measures were ‘in the interests of greater accountability'.

Required:

(a) Examine how sound corporate governance can make it more difficult for companies to fail, clearly explaining what ‘corporate governance’ means in your answer. (10 marks)