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Corporate Governance

Abstract

As a practice Corporate Governance has been gaining nowadays importance. The relevance of corporate governance has increased several times since the concept was introduced. With the introduction of globalization and competition, to manage shareholder expectations is no longer the magic mantra for success. This article summarizes importance of corporate governance and essential issues in that help to achieve these desired objectives.

Keywords: Corporate, Governance, Profitability, Value, Accountability, Responsibility.

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Introduction

Corporate governance is the total system which is controlled and directed by a firm through various practices, rules, and processes. Corporate governance essentially involves balance of the total interests of a company's many stakeholders, manufacturers, shareholders, senior management executives, producers, customers, suppliers, financiers, the government, and the community people. Corporate governance also provides the framework for attaining a company's objectives and goal, and highlights with practically every sphere and area of management, from action plans and internal controls to corporate disclosure and performance measurement.

The corporate governance framework consists of

1. direct and indirect contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards,
2. procedures for reconciling some conflicting interests of stakeholders according to their duties, privileges, and roles, and
3. To serve as a system of checks-and-balances, procedures for proper supervision, control, and information are adopted.

Aim of the Study

The basic purpose of corporate governance is to monitor those parties within a company which control the resources owned by investors.

Objectives of Corporate Governance

1. To arrange corporate goals with goals of its stakeholders such as society, shareholders etc..
2. To give strength to corporate functioning and discourage mismanagement.
3. To achieve profits with corporate business goals by making investment in profitable outlets.
4. To ensure good corporate performance to specify responsibility of the board of directors and managers.

Elements of Good Governance

There are 8 major characteristics of good governance. It is transparent, responsive, participatory, agreement oriented, accountable, effective and efficient, equitable and inclusive, and follows all the rule of law. Good governance is also responsive to the present and future needs of the organization, exercises prudence and judgement in policy-setting and decision-making, and resulting into best interests of all stakeholders are taken into account.

Rule of Law

For the full protection of stakeholders, good governance requires fair legal frameworks that are enforced by an impartial regulatory body.

Transparency

Transparency means that understandable and easy forms of information should be provided in; which should be freely available to all and directly accessible to those who will be affected by governance policies and practices. The outcomes resulting must be in compliance with established rules and regulations from that any decisions taken and their enforcement.

Responsiveness

To serve the best interests of stakeholders good governance requires designs within a reasonable timeframe, organizations and their processes.

Consensus Oriented

In order to reach in a wide consensus good governance requires, consultation with all to understand with the different interests of stakeholders of what is in the best interest of the entire stakeholder group and so that this can be achieved in a sustainable and judgement manner.

Equity and Inclusiveness

The organization that provides the most compelling message regarding its reason for existence and value to society and gives opportunity for its stakeholders to maintain, enhance, or generally improve their well-being provides.

Effectiveness and Efficiency

Good governance includes the processes implemented by the organization must produce favorable results for all while making the better utilisation of all resources such as natural, human, technological, financial, and environmental factors in its meeting the needs of its stakeholders.

Accountability

Accountability is a key point of good governance. In policy statements, who is accountable for what should be documented. In general terms, an organization is accountable to those rules of law and those who will be affected by its decisions or actions as well as applicable.

Participation

Participation is a key cornerstone of good governance which should be done by both men and women, either directly or through legitimate representatives. In general terms Participation needs to be organized and informed, including freedom of expression and assiduous concern for the best interests of the organization and society.

Principles of Corporate Governance

Governance Structure

Responsibilities and accountabilities within the organisation should be clearly identified. All organisations should be headed by an effective board.

The Structure of the Board and Its Committees

Appropriate board committees may be formed to assist the board in the effective performance of its duties. The board should comprise independent minded directors. It should include an appropriate combination of executive directors, independent directors and non-independent non-executive directors to prevent one individual or a small group of individuals from dominating the board's decision taking. The board should be of a size and level of diversity commensurate with the sophistication and scale of the organisation.

Director's Appointment Procedures

The board should ensure that a formal, strict and transparent procedure be in place for planning the succession of all key officeholders. The search for board candidates should be conducted, and appointments made, on merit, against objective criteria (to include experience, skills, knowledge, and independence and with due regard for the benefits of diversity on the board, including gender). There should be a formal, strict and transparent process for the appointment, election, induction and re-election of directors.

Director's duties, remuneration and performance

Legal duties of directors should be aware by the organisation. The committees, board members and individual directors should be supplied with information in a in an appropriate form and timely manner and should give quality of information in order to perform to required standards. Directors should observe and encourage high ethical standards and promote ethical culture in their organisation. Each director must be able to allocate sufficient time to discharge his or her duties effectively. Conflicts of interest should be disclosed and managed. The board, committees and individual directors should evaluate their performances and should be held accountable to appropriate stakeholders of the company. The board should determine transparent, fair and consistent remuneration policy for directors and senior executives of the organisation.

Risk Governance and Internal Control

The board should ensure the maintenance of a sound internal control system. The board should be responsible for risk governance and should ensure that the organisation will develop and executes a comprehensive and robust the system of risk management.

Reporting with Integrity

The board should present understandable evaluation of the organisation's financial, environmental, social and political position with performance and outlook of firm in a balanced and fair manner with integrity in annual report of organization.

Audit

The board should conduct a special audit with auditors and stakeholders to establish formal and transparent arrangements to appoint and maintain an appropriate relationship with the organisation. The board in the meeting should consider an effective and independent internal audit function with proper respect, confidence and cooperation of both the board and the management of the organisation.

Relations with Shareholders and other key Stakeholders

Within the context of its fundamental purpose, the board should maintain cordial relations with the interests of all its shareholders and other stakeholders The board should be responsible for ensuring an appropriate comments takes place among the organization.

Pillars of Corporate Governance Governance

1. Integrity and fairness of a company and its fair management.
2. In particular about disclosures and on transparency in all its activities and
3. Accountability and responsibility.

4ps of Corporate Governance

Corporate governance has integrated frame work of 4Ps or it is of people, purpose, processes and performance. The 4Ps have important role of any company.

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People

People are those who run any company. The people are its stakeholders like investor, customers, employees, lenders, suppliers, government and society at large. The inside stakeholders i.e. in a company should be capable, talented for their jobs, purpose oriented workers and ethical in their approach. The management should be fair, equitable and result oriented. The company management must incorporate ethical practices in the company like transparency and integrity.

Purpose

The management of a company should be clear in the purpose of a particular company. The purpose should be communicated and known to all people of organisation. The purpose should be altered time to time and conditions change. The established purpose should be measurable and actionable. Purpose definition leads to vision and mission of a company. In turn setting path for strategic and detailed action plans of a company processes.

Process

The process management has subgroups resource management, organisation management, supply chain management, energy management, marketing management, information management, risk management and the lie. The process management in a company be defined and documented. The control parameters and mechanisms will show the areas of deficiencies in these processes. The plant and processes are governed by various rules and laws of the country which need compliance.

Performance

The performance should be measurable. The performance levels should be set and communicated so that all in chain know what is expected. At different levels regular measurement leads to finding operation efficiencies and shortcomings. In a company the performance measurement can be fixed on the monetary transactions like asset efficiency or supply chain expenditure.

Need of Corporate Governance

Wide Spread of Shareholders

The idea of shareholders democracy remains with only to the law and the Articles of Association; that it requires a practical implementation through a code of conduct of corporate governance. Today a company has a very large number of shareholders spread all over the nation and world; with a majority of shareholders being unorganised and having an indifferent attitude towards corporate affairs.

Changing Ownership Structure

In the present-day-times the pattern of corporate ownership has changed considerably with institutional investors (foreign as well Indian) and resulting mutual funds becoming largest shareholders in large corporate private sector. These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate governance to build up its image in society.

Corporate Scams or Scandals

Corporate scams (or frauds) in the recent years of the past have shaken public confidence in corporate management and thus leads to need in corporate governance.

Greater Expectations of Society of the Corporate Sector

To meet social expectations, there is a need for a code of corporate governance, for the best management of company in economic and social terms.

Hostile Take-Overs

This factor also points out to the need for corporate governance, in the form of an efficient code of conduct for corporate managements. Hostile take-overs of corporations witnessed in several countries, put a question mark on the efficiency of managements of take-over companies.

Huge Increase in Top Management Compensation

It has been observed in both developing and developed economies that there has been a great increase in the monetary payments (compensation) packages of top level corporate and management executives.

Globalisation

Desire of one and more Indian companies to get listed on international stock exchanges also focuses on a need for corporate governance. International capital market recognizes only companies well-managed according to standard codes of corporate governance.

Conclusion

Corporate governance extends beyond corporate law. There are so many corporate governance structures available in the developed world but there is no one structure, which can be singled out as being better than the others. There is no "one size fits all" structure for corporate governance structure. The Committee's recommendations are not therefore based on any one model but are designed for the Indian environment.

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