CORPORATE GOVERNANCE

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CORPORATE
GOVERNANCE
STAKEHOLDER
CORPORATION
CONTROL
MANAGEMENT
RULES
BEHAVIOR
MECHANISM
TRANSPARENCY
DECISION
LAW
INTEGRITY
DIRECTION
PARTICIPANTS
MARKET
POLICY
ENVIRONMENT
SYSTEM
AFFAIRS
REGULATION
MONITORING
PROCEDURES
OBJECTIVES
INTERESTS

Corporate Governance

- Corporate governance is the structure and the associations which govern corporate direction and performance. The board of directors have dominant role in corporate governance. Its relationship to the other primary participants, typically shareholders and management, is critical.
- Other members include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community.

- Usually, corporate governance is described as the host of legal and non-legal principles and practices affecting control of publicly held business firms.
- Broadly speaking, corporate governance affects not only who controls publicly traded corporations but also the allocation of risks and returns from the firm's activities among the various contributors in the firm, including stockholders and managers as well as creditors, employees, customers, and even societies.

Objective of corporate governance

- The fundamental objective of corporate governance is to boost and maximize shareholder value and protect the interest of other stake holders.
- World Bank described Corporate Governance as blend of law, regulation and appropriate voluntary private sector practices which enables the firm to attract financial and human capital to perform efficiently, prepare itself by generating long term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole.


GOOD
CORPORATE GOVERNANCE
TRANSPARENCY
OF
OPERATIONS
ACCOUNTABILITY
TOWARDS
SHAREHOLDERS
FAIRNESS
IN
DEALINGS

- Corporate governance has various objectives to strengthen investor's confidence and intern leads to fast growth and profits of companies.

These are mentioned below:

1. A properly structured Board proficient of taking independent and objective decisions is in place at the helm of affairs.

2. The Board is balanced as regards the representation of suitable number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders.

3. The Board accepts transparent procedures and practices and arrives at decisions on the strength of adequate information.

4. The Board has an effective mechanism to understand the concerns of stakeholders.
5. The Board keeps the shareholders informed of relevant developments impacting the company.
6. The Board effectively and regularly monitors the functioning of the management team.
7. The Board remains in effective control of the affairs of the company at all times.

Elements of good Corporate Governance

- It has been established in various management reports that aspects of good corporate governance comprise of transparency of corporate structures and operations, the accountability of managers and the boards to shareholders, and corporate responsibility towards stakeholders.
- While corporate governance basically lays down the framework for creating long-term confidence between companies and the external providers of capital.


alignment
direction
responsibilities
good governance elements
expectations
risk management
delivery
improvement

- There are numerous elements of corporate governance which are mentioned below:

1. Transparency in Board's processes and independence in the functioning of Boards. The Board should provide effective leadership to the company and management to realize sustained prosperity for all stakeholders. It should provide independent judgment for achieving company's objectives.
2. Accountability to stakeholders with a view to serve the stakeholders and account to them at regular intervals for actions taken, through strong and sustained communication processes.
3. Impartiality to all stakeholders.
4. Social, regulatory and environmental concerns.

5. Clear and explicit legislation and regulations are fundamentals to effective corporate governance.

6. Good management environment that includes setting up of clear objectives and suitable ethical framework, establishing due processes, clear enunciation of responsibility and accountability, sound business planning, establishing clear boundaries for acceptable behaviour, establishing performance evaluation measures.

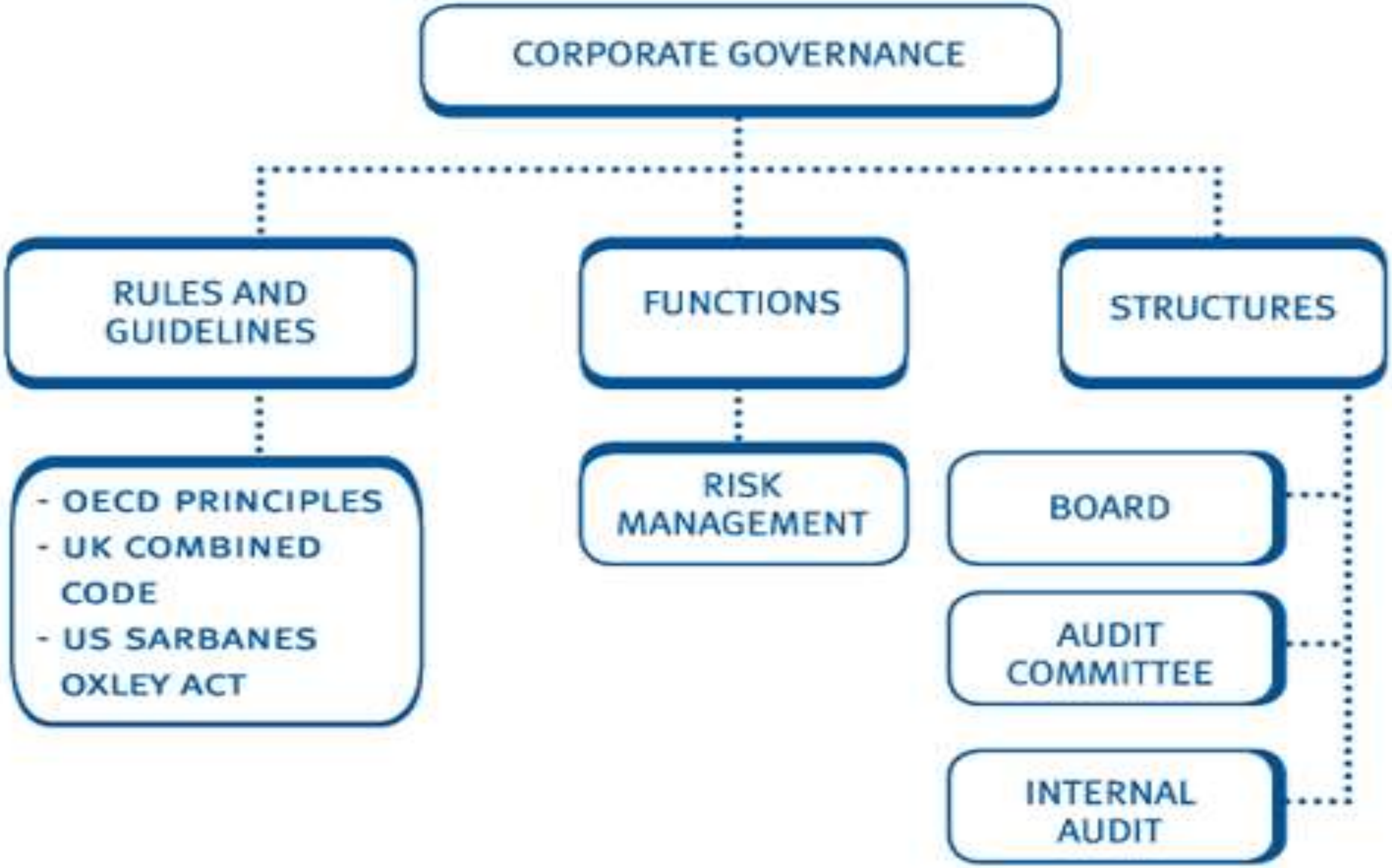
7. Explicitly approved norms of ethical practices and code of conduct are communicated to all the stakeholders, which should be clearly understood and followed by each member of the organization.

8. The objectives of the corporation must be clearly recognized in a long-term corporate strategy including an annual business plan along with achievable and measurable performance targets and milestones.

9. A well composed Audit Committee to work as liaison with the management, internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures, reporting to the Board on the key issues.
10. Risk is an important component of corporate functioning and governance, which should be clearly acknowledged, analysed for taking appropriate corrective measures. In order to deal with such situation, Board should formulate a mechanism for periodic reviews of internal and external risks.
11. A clear Whistle Blower Policy whereby the employees may without fear report to the management about unprincipled behaviour, actual or suspected frauds or violation of company's code of conduct. There should be some mechanism for adequate safeguard to personnel against victimization that serves as whistle-blowers.

Importance of corporate governance

- The Organisation for Economic Cooperation and Development (OECD) highlights the significance of good corporate governance in the global and domestic economic environment. According to OECD, if countries are to reap the full benefits of the global capital market, and if they are to attract long-term "patient" capital, corporate governance arrangements must be credible and well understood across borders.
- Even if companies do not rely primarily on foreign sources of capital, adherence to good corporate governance practices will help to improve the confidence of domestic investors, may reduce the cost of capital, and ultimately induce more stable sources of financing (Principles of Corporate Governance, 1990).


CORPORATE GOVERNANCE
RULES AND GUIDELINES
FUNCTIONS
STRUCTURES
- OECD PRINCIPLES
- UK COMBINED CODE
- US SARBANES OXLEY ACT
RISK MANAGEMENT
BOARD
AUDIT COMMITTEE
INTERNAL AUDIT

Important issues in corporate governance

- There are number of important issues in corporate governance. All the issues are inter related and interdependent to deal with each other. Each issues linked with corporate governance have different priorities in each of the corporate bodies.
- The issues are as mentioned :-

Issues

Value Based Corporate Culture

Holistic View

Compliance with Laws

Corporate Failures

Innovations

Globalization

- **Value based corporate culture:**

For smooth operation of any firm, it is necessary to develop certain ethics, values. Long run business needs to have value based corporate culture. Value based corporate culture is good practice for corporate governance. It is a set of ethics, principles which are inviolable.

- **Holistic view:**

This holistic view is religious outlook which helps for effective operation of organization. It is not easier to adopt it, it needs special efforts and once adopted it leads to developing qualities of nobility, tolerance and empathy.

- **Compliance with laws:**

  Those companies which really need advancement, have high ethical values and need to run long run business they abide and comply with laws of Securities Exchange Board Of India (SEBI), Foreign Exchange Regulation Act, Competition Act 2002, Cyber Laws, Banking Laws.

- **Disclosure, transparency, and accountability:**

  Disclosure, transparency and accountability are important feature for good governance. Timely and accurate information should be disclosed on the matters like the financial position, performance. Transparency is needed in order that government has faith in corporate bodies. Transparency is needed towards corporate bodies so that due to tremendous competition in the market place the customers having choices don't shift to other corporate bodies.

- **Corporate Governance and Human Resource Management:** In corporate culture, employees are vital for success of firms. Every individual should be treated with individual respect, his achievements should be recognized. Each individual staff and employee should be given best opportunities to prove their worth and these can be done by Human Resource Department. Thus in Corporate Governance, Human Resource has a great role.

- **Innovation:**

  Every corporate body must involve in innovation practices i.e. innovation in products, in services and it plays a critical role in corporate governance.

- **Globalization** helping Indian Companies to become global giants based on good governance: In today's competitive environment and due to globalization, several Indian Corporate bodies are becoming global companies which are possible only due to good corporate governance.

- **Necessity of Judicial Reform:**

  There is requirement of judicial reform for a good economy and also in today's varying time of globalization and liberalization. Judicial system of India though having performed salutary role all these years, certainly are becoming obsolete and outdated over the years. The delay in judiciary is due to several interests involved in it. But then with changing scenario and fast growing competition, the judiciary needs to bring improvements accordingly. It needs to promptly resolve disputes in cost effective manner.

- **Lessons from Corporate Failure:**

  Corporate body have certain policies which if goes as a failure they need to learn from it. Failure can be both internal as well as external whatever it may be, in good governance, corporate bodies need to learn from their failures and need to move to the path of success.

- To summarize, corporate governance encompasses systems and procedures designed to structure authority, balance responsibility and provide accountability to stakeholders at all levels. Fundamentally, corporate governance is about harmonising success with sustainability.
- Management literature have shown that corporate Governance is a set of ideas, innovation, creativity, thinking having certain ethics, values, principles which gives direction and shape to its people, personnel and possessors of companies and help them to succeed in global market.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