
CORPORATE
GOVERNANCE
MANAGEMENT
INTERNAL
SHAREHOLDERS
MONITORING
CORPORATION
STAKEHOLDERS
DIRECTORS
PARTIES
EXTERNAL
BOARD
CORPORATIONS
BUSINESS
CONTROL
PROCEDURES
PERFORMANCE
REGULATIONS
RELATIONSHIPS
INTERESTS
INTEREST
CONCERNED
MECHANISMS
FINANCIAL
LAWS
AUDITORS
CONTEMPORARY
INVESTORS
EXECUTIVES
JURISDICTIONS
STOCK
CUSTOMERS
SUPPLIERS
PERSONNEL
ENTITY
PERSON
ENTITY'S
AGENT
BEHAVIOR
REPORTING
LENDERS
INFLUENTIAL
VARIOUS
CONSTITUTION
EXISTENCE
LEGAL
PROVIDE
EXECUTIVE
ARISE
ALSO
COMPANIES
RETURNS
MANY
STRONG
JURISDICTION
CONTROLLED
FIRMS
CREDITORS
CAPITAL
SYSTEMS
SYSTEM
STATUTE
REGULATION
GOALS
CASE
INCLUDE
GENERAL
POLICY
REGULATORY
VARY
ARISES
COUNTRIES
SHAREHOLDER
COMPANY
STATUTORY
PARTICULAR
SERVICES
EMPLOYEES
RELATED
RECEIVE
COMPENSATION
OBJECTIVES
CORPORATION'S
LARGE
FIRM
GOODS
EXAMPLE
INFORMATION
POLICIES
EFFICIENCY
IMPACT
CONFLICTS

Corporate Governance

The root of the word Governance is from ***'gubernate'***, which means **to steer**. Corporate governance would mean to steer an organization in the desired direction. The responsibility to steer lies with the board of directors/ governing board.

Corporate or a Corporation is derived from the Latin term ***"corpus"*** which means a **"body".** Governance means administering the processes and systems placed for satisfying stakeholder expectation.

When combined, Corporate Governance means a set of systems, procedures, policies, practices, standards put in place by a corporate to ensure that relationship with various stakeholders is maintained in transparent and honest manner.

Concept of Corporate Governance

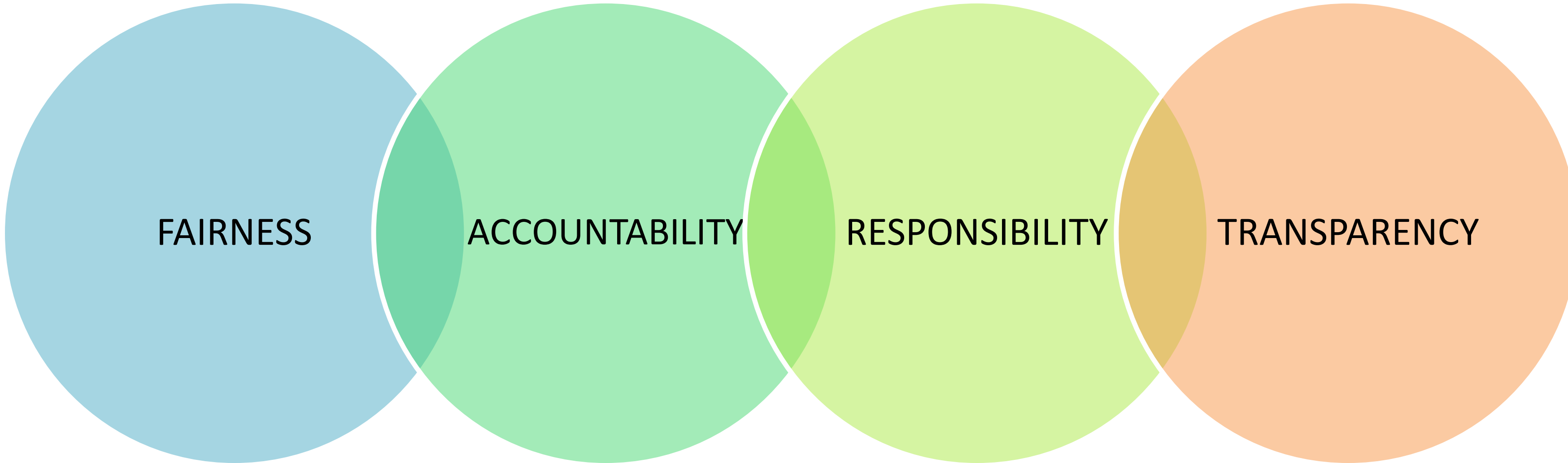
Corporate Governance may be defined as *a set of systems, processes and principles which ensure that a company is governed in the best interest of all stakeholders. It is the system by which companies are directed and controlled. It is about promoting corporate fairness, transparency and accountability.* In other words, 'good corporate governance' is simply 'good business'.

Corporate Governance ensures:

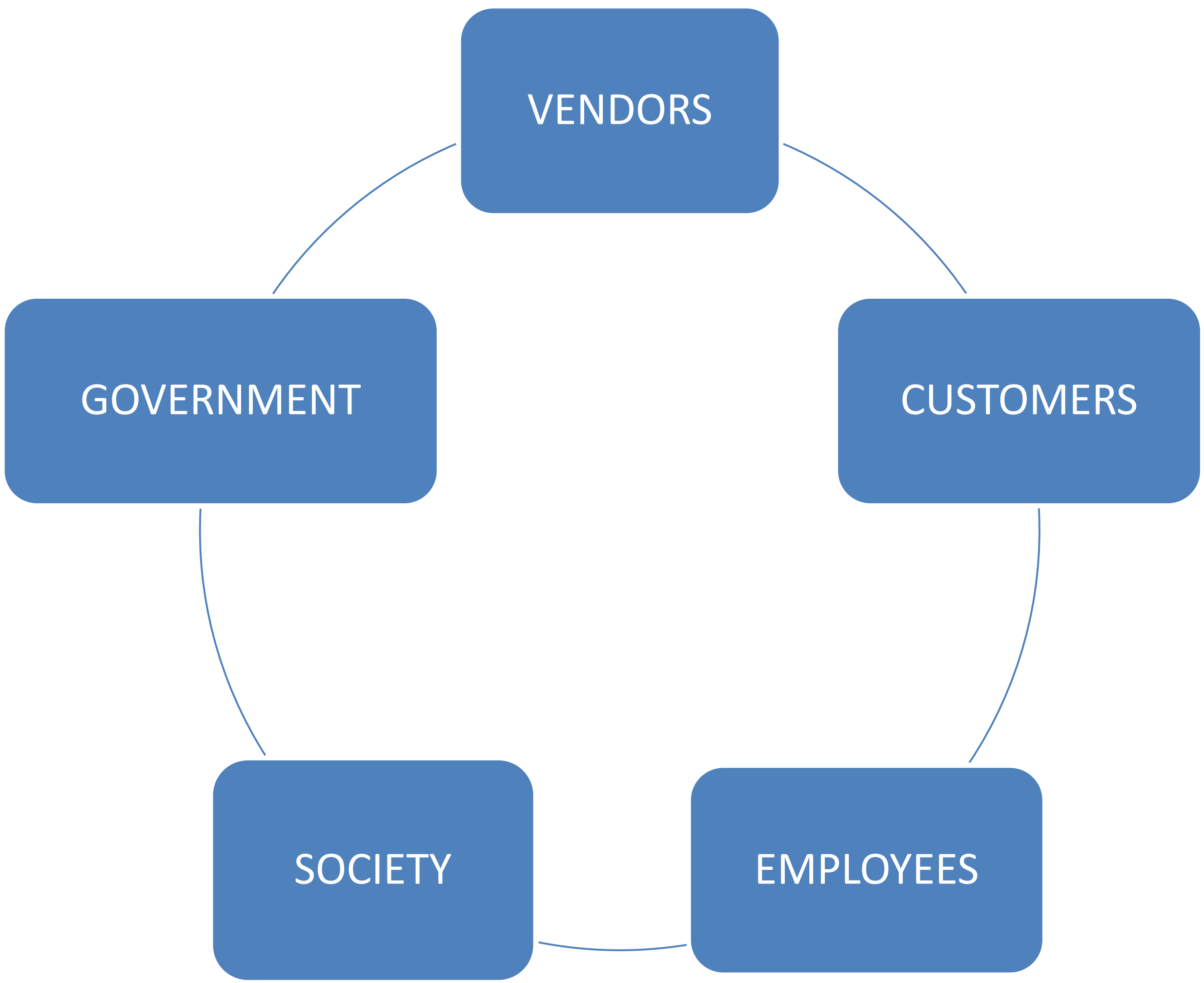
- Adequate disclosures and effective decision making to achieve corporate objectives;
- Transparency in business transactions;
- Statutory and legal compliances;
- Protection of shareholder interests;
- Commitment to values and ethical conduct of business;

The ***heart of Corporate Governance is Transparency, Disclosure, Accountability and Integrity***.

BASIC PILLARS OF CORPORATE GOVERNANCE



STAKEHOLDERS



Definition of Corporate Governance

James D. Wolfensohn (Ninth President World Bank)

"Corporate Governance is about promoting corporate fairness, transparency and accountability".

Cadbury Committee U.K

Corporate Governance is a system of structuring, operating and controlling a company with the following specific aims:—

(i) Fulfilling long-term strategic goals of owners;

(ii) Taking care of the interests of employees;

(iii) A consideration for the environment and local community;

(iv) Maintaining excellent relations with customers and suppliers;

(v) Proper compliance with all the applicable legal and regulatory requirements.

Confederation of Indian Industry (CII) –

Desirable Corporate Governance Code (1998)

“Corporate governance deals with laws, procedures, practices and implicit rules that determine a company’s ability to take informed managerial decisions vis-à-vis its claimants - in particular, its shareholders, creditors, customers, the State and employees. There is a global consensus about the objective of ‘good’ corporate governance: maximizing long-term shareholder value.”

Report of N.R. Narayana Murthy Committee on Corporate Governance constituted by SEBI (2003)

“Corporate Governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company.”

Contribution of Chanakya in Corporate Governance

।।धर्मस्य मूलम् अर्थः।।

Chanakya

Money is the basis for even good work.

EVIDENCE OF CORPORATE GOVERNANCE FROM THE ARTHASHASTRA

Kautilya's Arthashastra maintains that for good governance, all administrators, including the king are considered servants of the people. Good governance and stability are completely linked. If rulers are responsive, accountable, removable, recallable, there is stability. If not there is instability. These tenets hold good even today.

Raksha,

Vridhi,

Palana,

Yogakshema

The substitution of the state with the corporation, the king with the CEO or the board of a corporation, and the subjects with the shareholders, bring out the quintessence of corporate governance, because central to the concept of corporate governance is the belief that public good should be ahead of private good and that the corporation's resources cannot be used for personal benefit.

(A) Raksha - literally means protection, in the corporate scenario it can be equated with the risk management aspect.

(B) Vriddhi - literally means growth, in the present day context can be equated to stakeholder value enhancement

(C) Palana - literally means maintenance/compliance, in the present day context it can be equated to compliance to the law in letter and spirit.

(D) Yogakshema - literally means well being and in Kautilya's Arthashastra it is used in context of a social security system. In the present day context it can be equated to corporate social responsibility.

Need For Corporate Governance

- Corporate Performance
- Enhanced Investor Trust
- Better Access To Global Market
- Combating Corruption
- Easy Finance from Institutions
- Enhancing Enterprise Valuation
- Reduced Risk of Corporate Crisis and Scandals
- Accountability

Objective of Corporate Governance

- To create Social responsibility.
- To create a transparent working System.
- To create a management accountable for corporate functioning.
- To protect and promote the interest of shareholders.
- To develop an efficient organization culture.
- To aid in achieving social and economic goals.
- To improve social cohesion.
- To minimize wastages, corruption, red-tapaism etc.

Benefits of Corporate Governance

- Good Corporate Governance ensures corporate success and economic growth.
- Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
- It lowers the capital cost.
- There is a positive impact of share price.
- Good corporate governance also minimize wastages, corruption, risks and mismanagement.
- It helps in brand formation and development.

Theories of Corporate Governance

The following theories elucidate the basis of corporate governance :

(A) Agency Theory

(B) Shareholder Theory

(C) Stake Holder Theory

(D) Stewardship Theory

Agency Theory

According to this theory, managers act as 'Agents' of the corporation. The owners set the central objectives of the corporation. Managers are responsible for carrying out these objectives in day-to-day work of the company. Corporate Governance is control of management through designing the structures and processes.

In agency theory, the owners are the principals. But principals may not have knowledge or skill for getting the objectives executed. Thus, principal authorizes the mangers to act as 'Agents' and a contract between principal and agent is made. Under the contract of agency, the agent should act in good faith. He should protect the interest of the principal and should remain faithful to the goals.

In modern corporations, the shareholdings are widely spread. The management (the agent) directly or indirectly selected by the shareholders (the Principals), pursue the objectives set out by the shareholders. The main thrust of the Agency Theory is that the actions of the management differ from those required by the shareholders to maximize their return. The principals who are widely scattered may not be able to counter this in the absence of proper systems in place as regards timely disclosures, monitoring and oversight. Corporate Governance puts in place such systems of oversight.

Stockholder/Shareholder Theory

According to this theory, it is the corporation which is considered as the property of shareholders/ stockholders. They can dispose off this property, as they like. They want to get maximum return from this property.

The owners seek a return on their investment and that is why they invest in a corporation. But this narrow role has been expanded into overseeing the operations of the corporations and its mangers to ensure that the corporation is in compliance with ethical and legal standards set by the government. So the directors are responsible for any damage or harm done to their property i.e., the corporation. The role of managers is to maximize the wealth of the shareholders. They, therefore should exercise due diligence, care and avoid conflict of interest and should not violate the confidence reposed in them. The agents must be faithful to shareholders.

Stakeholder Theory

According to this theory, the company is seen as an input-output model and all the interest groups which include creditors, employees, customers, suppliers, local-community and the government are to be considered. From their point of view, a corporation exists for them and not the shareholders alone.

The different stakeholders also have a self interest. The interest of these different stakeholders are at times conflicting. The managers and the corporation are responsible to mediate between these different stakeholders interest. The stake holders have solidarity with each other. This theory assumes that stakeholders are capable and willing to negotiate and bargain with one another. This results in long term self interest.

The role of shareholders is reduced in the corporation. But they should also work to make their interest compatible with the other stake holders. This, requires integrity and managers play an important role here. They are faithful agents but of all stakeholders, not just stockholders.

Stewardship Theory

The word 'steward' means a person who manages another's property or estate. Here, the word is used in the sense of guardian in relation to a corporation, this theory is value based. The managers and employees are to safeguard the resources of corporation and its property and interest when the owner is absent. They are like a caretaker. They have to take utmost care of the corporation. They should not use the property for their selfish ends. This theory thus makes use of the social approach to human nature.

The managers should manage the corporation as if it is their own corporation. They are not agents as such but occupy a position of stewards. The managers are motivated by the principal’s objective and the behavior pattern is collective, pro-organizational and trustworthy. Thus, under this theory, first of all values as standards are identified and formulated. Second step is to develop training programmes that help to achieve excellence. Thirdly, moral support is important to fill any gaps in values

Thankyou

Presented By :

Dr. Ravish Chandra Verma

Assistant Professor

Department of Commerce

Mahatma Gandhi Central University
Motihari , Bihar

Prepared by :

Abhyudai Raj Singh

BBAU(DRM) , Lucknow