CORPORATE GOVERNANCE

Learning Objectives

- Definition of Corporate Governance
- Nature of Corporate Governance
- Need of Corporate Governance
- Benefits of Good Corporate Governance
- Factors influencing Corporate Governance
- Contents of Corporate Governance Code
- Corporate Governance in India

Introduction

- A corporation or company is an enterprise authorised by law to conduct business.
- Governance implies a degree of control to be exercised by key stakeholders' representatives for the furtherance of corporate growth and protection of stakeholders' interests.
- Corporate governance is a system by which companies are directed and controlled based on code for good corporate practices.

Definition of Corporate Governance

- Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals.
- Corporate governance is concerned with the efficiency use of resources, value addition and wealth creation within the broad parameters of corporate philosophy established by corporate governance

Need of Corporate Governance

- The basic idea of the effectiveness of company accountability to its shareholders has come in doubt.
- There is a need for extending corporate accountability to employees, creditors, consumers and society at large.
- Society’s expectations from corporations have increased

Benefits of Good Corporate Governance

1. Good governance provides stability and growth of the company
2. Good governance builds confidence among the investors and reduces the cost of capital to a considerable extent.
3. Adaptation of good corporate practices promotes stability and long term sustenance of stakeholders' relationship.
4. A good corporate citizen becomes an ethical icon and enjoys a position of pride in corporate culture.
5. A well governed company enthuse employees to acquire and develop company specific skills.

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Arguments against business performing social responsibility activities

i. Organisations cannot act effectively as moral agents for all company shareholders.

ii. time money and attention diverted to social causes undermine market efficiency.

Factors influencing Corporate Governance

i. Ownership structure

ii. The Structure of Company Boards

iii. The Financial Structure

iv. Institutional Environment

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Contents of Corporate Governance Code

a) Constitution of Board of Directors

b) Disclosure of Information

c) Management Practices

Principles of Corporate Governance

a) Transparency

b) Accountability

c) Independence

d) Reporting

The Davis Model of Corporate Social Responsibility

Proposition 1: Social responsibility arises for social power

Proposition 2: Business shall operate with open receipt of inputs from society and open disclosure of its operations

Proposition 3: The social costs and benefits of an activity shall be thoroughly calculated

Proposition 4: The social costs related to each activity shall be passed on to the consumer

Proposition 5: Business institutions have the responsibility to become involved in certain social problems that are outside their normal areas of operation

Corporate Governance in India

- Corporate governance is concerned with the system of law, regulation, and practice which will promote enterprise and ensure accountability.
- Various reports on corporate governance were given by a number of committees set up to review and suggest ways and means to make CG more effective.
- Names committees are presented below
- Report of the Kumar Manglam Birla committee on Corporate Governance (SEBI, May 7th 1999
- Report of the Task Force on Corporate Excellence through Governance (Department of Company Affairs, November 20th 2000)
- Report of the Advisory Group on Corporate Governance: Standing Committee on International Finance Standards and Codes (RBI, March 24, 2001)
- Report on the Consultative Group of Directors of Banks/ Financial Institutions (RBI, April, 2002)

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- Report of the Naresh Chandra Committee on Corporate Audit and Governance Committee (Report 1) (SEBI, December 23 rd 2002)
- Recommendations of the Naresh Chandra Committee
- Disclosure of Contingent Liabilities (Section 2.5 of Naresh Chandra Committee Report)
- CEO / CFO Certification (Section 2.10 of Naresh Chandra Committee Report
- Report of the committee on Regulation of Private Companies and Partnership (Naresh Chandra Committee – II, July 2003

- **Conclusion**

❖ Progressive firms in India have made an attempt to put systems of good corporate governance in place.

❖ Good governance is expected when different interests are accommodated in a socially acceptable balance.

❖ Hence the concept of corporate governance hinges on total transparency, integrity and accountability of the management.

Summary

- Corporate governance is a newly introduced system for managing a company in the best interest of all its stakeholders
- Corporate governance is the overall control of activities in a corporation.
- The best known arguments against performing social responsibility activities have been advanced by Milton Friedman a distinguished economist.
- Corporate governance is concerned with the system of law, regulation, and practice which will promote enterprise and ensure accountability.
- Good governance is expected when different interests are accommodated in a socially acceptable balance.