

CORPORATE GOVERNANCE : A SUGGESTIVE CODE

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The growing role of market in the world, i.e. market oriented economy in the later part of the 20th century has led to the spread of capitalism, globalization, liberalization, privatization, demanding efficiency, corporate culture, model code of conduct and business ethics for the very survival of the corporate world. A large number of scams and frauds that have surfaced during the last three decades have shook the confidence of the investors. Today the investor community are demanding more transparency in business operations, adequate and qualitative financial and non-financial information and more accountability of company's board and management. Good corporate governance is an integral part of the company's management and business philosophy. Good corporate governance, for the company, does not mean only compliance with various related statutory and regulatory requirements. The entire corporate sector has to strongly believe that the spirit of corporate governance goes beyond the statutory form, is the key to success. So, corporate governance is concerned and committed to sound corporate practices based on conscience, openness, fairness, professionalism and accountability in building confidence of its various stakeholder in it thereby paving the way for its long-term success.

In a broader sense, however, good corporate governance the extent to which companies are run in an open and honest manner - creates overall market confidence, enhances efficiency of international capital allocation and contribute ultimately to the nations' overall wealth and welfare in a suggestive manner, not based on statutory and regulatory manner.

The term 'Corporate Governance' is not precisely defined anywhere. Some of the definitions are, however, as follows :

"Corporate governance is not just corporate management, it is something much broader to include a fair, efficient and transparent administration to meet certain well-defined objectives. It is a system of structuring, operating and controlling a company with a view to achieve long-term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. When it is practised under a

well-laid out system, it leads to the building of a legal, commercial and institutional framework and demarcates the boundaries within which these functions are performed."¹

"Corporate governance is a system by which companies are run. it relates to the set of incentives, safeguards and the dispute resolution process that are used to control and coordinate the actions of the agents on behalf of the shareholders by the Board of Directors. Shareholders are responsible for appointing the directors and auditors. Creating of residual value is the primary concern of shareholders, but the process of value creation and its legality are equally important. Hence, corporate governance relates to a code of conduct the management of the company observes while exercising its powers."²"Corporate governance can be defined as a set of systems and processes which ensure that a company is managed to the best interests of all the stakeholders. The set systems that help the task of corporate governance should include certain structural and organizational aspects, the process that helps corporate governance will embrace how things are done within such structure and organizational systems."³

The Cadbury committee (U.K.) has defined corporate governance as "the system by which companies are directed and controlled." The panel appointed by the Institute of Chartered Accountants of India to formulate a draft code of corporate governance has suggested the following definition : "A corporate governance system is its imbedded configuration of values, ethics and appropriate and expected behaviour which provide the coordinates for the organization's performance of its role as a societal entity, in all its aspects. A code of corporate governance makes explicit both the auditable and the desirable aspects of such a configuration."

Thus, corporate governance is a broad and somewhat vague term which is used to refer to a range of corporate controls and accountability mechanisms designed to meet the aims of all the stakeholders. It is the process of direction, supervision and accountability of corporations. It concerns the theories and practices of the board of directors and its relationships with the shareholders of the company. Corporate governance relates to laws,

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procedures, practices and implicit rules that determine a company's ability to take improved managerial decisions. A number of Global Committees were set-up to look into the various aspects of the Corporate Governance. These are :

- (a) Sir Adrain Cadbury Committee on Financial Aspects of Corporate Governance (1992).
- (b) Mervyn E. King's Committee on Corporate Governance (1994).
- (c) Greenbury Committee on Directors' Remuneration (1995)
- (d) CalPERS-Global Corporate Governance Principles (1996).
- (e) Business Round Table (BRT) - Statement on Corporate Governance (1997).
- (f) Hampel Committee on Corporate Governance (1998).
- (g) Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit committees (1999).
- (h) OECD Principles of Corporate Governance (1999).
- (i) CACG Principles for Corporate Governance in Commonwealth (1999).

Corporate governance is important for the following :

- * It lays down the framework for creating long-term trust between companies and the external providers of capital.
- * It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience and a host of new ideas for their organization.
- * It limits the liability of top management and directors by carefully articulating the decision making process.
- * It can enhance the shareholder value.
- * It can protect interest of shareholders and other stakeholders including customers, employees and society at large.

- * Corporate governance can ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.

- * It can ensure accountability for performance and to achieve excellence at all levels.

- * Good corporate governance can provide corporate leadership of highest standards for others to emulate.

Conclusion-Thus, we can say that, good corporate governance provides stability and growth to the enterprise and builds confidence among all related stakeholders. Also effective governance reduces perceived risks, consequently reducing cost of capital, leverage competitive advantage in financial market and promotes stability, long-term sustenance of stakeholder's relationship. So, we can say that the fundamental objective is not mere fulfillment of the requirements of law in ensuring commitment of the board in managing the company in a transparent manner for maximizing long-term stakeholder's value. I would like to conclude by quoting Sir Adrian Cadbury from the preface to the World Bank publication, Corporate Governance : A Framework for Implementation; and I quote - "Corporate governance is holding the balance between economic and social goals and between individual and community goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. The incentive to corporations is to achieve their corporate aims and to attract investment. The incentive for states is to strengthen their economics and discourage fraud and mismanagement." So we can say that, the road to efficiency lies in minimizing regulatory prescriptions and maximizing voluntary codes to ensure excellence in corporate governance.

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