CORPORATE GOVERNANCE

Abstract : 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.

In India, good Corporate Governance practices are sought to be established by well defined measures under the Company Law and SEBI guidelines.

Definition

Before delving further on the subject, it is important to define the concept of corporate governance. The vast amount of literature available on the subject ensures that there exist innumerable definitions of corporate governance. To get a fair view on the subject it would be prudent to give a narrow as well as a broad definition of Corporate Governanace.

Sir Andrian Cadbury committee appointed by the London Stock exchange , being the pioneer body set up to address the serious issue of Corporate Governance, defined it as-" a system by which companies are directed and controlled"-. Some of the leading authorities have given the meaning/ objectives to Corporate Governance as under:

- A process by which corporates are made responsive for the rights and wishes of he stake-holders – Ada Demp ad F Neu Bauer.
- Relationship among various participants I determining the direction and performance of corporations – Monks and Minow.
- Promoting corporate fairness, transparency and accountability- James Wilfen Sohn, former President , World Bank,
- Connotes a blend of Rules , Regulations, Laws and Voluntary practices that enable companies attract finance and human capital , perform efficiently and thereby maximize long term value for shareholders, multiple stake holders including those of society- Dr.Bansal, ,New Delhi.

Elaborate studies were undertaken both at International and National levels on the impact, incidence and importanceof Corporate Governance , the most important amongst which , are as follows,

<u>INTERNATIONAL LEVEL</u>

Cadbury Committee, UK	:	1992
Vienot Report, France	:	1995
King's Report, South Africa	:	1995
Peter's Report, M=Netherlands	:	1996
Tokyo stock exchange	:	1995
Hong Kong Society of Accountants	:	1996
Greenbury Committee	:	1996
Blue Ribbon Commission	:	1996
OECD(Guidelines)	:	1998
Hampel Committee, UK	:	1998

<u>NATIONAL LEVEL</u>

CII Voluntary Code	:	1998
Kumarmagalam Birla Committee	:	2000
Narayanamoorthy Committee	:	2003
Naresh Chandra Committee	:	2003

Difference between corporate governanace vs management

Corporate governance differs from corporate management in that governance is primarily about protecting a business, while management is more about growing it. Governance refers to the policies and procedures set in place to ensure a business operates within the law and for the optimal benefit of all stakeholders. Governance is direction and control at a higher level and management, signifies looking after functional operations including supervision and coordination , which is subject to overall Governance.

Objectives:

- A properly structured Board of Directors proficient of taking independent and objective decisions.
- 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.
- Adoption of transparency in procedures and practices.

- The Board has an effective mechanism to understand the concerns of stakeholders
- Effective and regular monitoring of management functions.
- The Board keeps the shareholders informed of relevant developments impacting the company
- The Board remains in effective control of the affairs of the company at all times.

FUNDEMENTAL PRINCIPLES

Leadership

An effective board should head each company. The Board should steer the company to meet its business purpose in both the short and long term.

Capability

The Board should have an appropriate mix of skills, experience and independence to enable its members to discharge their duties and responsibilities effectively.

Accountability

The Board should communicate to the company's shareholders and other stakeholders, at regular intervals, a fair, balanced and understandable assessment of how the company is achieving its business purpose and meeting its other responsibilities.

Sustainability

The Board should guide the business to create value and allocate it fairly and sustainably to reinvestment and distributions to stakeholders, including shareholders, directors, employees and customers.

Integrity

The Board should lead the company to conduct its business in a fair and transparent manner that can withstand scrutiny by stakeholders.

Issues on Governance:-

On an overall review of the systems and methods of functioning prevalent in Multi national as also leading Indian Coroprates, the scenario n relation to corporate governance-the role of each group responsible for ensuring good Governance and the issues that arise could be seen to be as under:-

I. Shareholders:
Generally not active and not involved in matters of governance over which members have onerous responsibility to lay braod policy parameters for implementation by the Board. There are however a few companies with active shareholder participation at Annual and Extra-ordinary General meeting of companies contributing to their growth.

II. Board of Directors:
In india by and large, in the private sector, the Boards of Directors are controlled by the family promoter groups and in the public sector, by the functionaries of the Government. However ,there are a fair number of companies which have professional management. Independent directors chosen oftenby the Boards themselves are not in many cases functioning with the level of independence required to properly guide and advise the owner managed Board. We have to go a long way in ensuring a system of competent board of management.

III. Independent Directors:
The greatest challenge for Corporate Governanace arises from the need to ensure fair degree of independence from the side of independent directors. In most of the cases, the independent directors are found to get close to the management and though they may be well qualified in their own rights, often they tend to be guided by the views of the owner groups and do not use their professional knowledge, expertise and experience in rendering the right and timely advise to management.

IV. Board committees:-
The committees of the Board , more importantly, the Audit Committee and the Remuneration Committee, in a large number of cases do not exercise their functions with the due professionalism required in practice, these committees are also guided b the views of the family management in private sector companies and of the government in government companies there have been many instances where audit committees have not exercised their rightful duties and responsibilities withdue professionalism as needed. Also, in many private sector companies, remuneration committee has endorsed unjustifiably huge remuneration to key Managerial Personnel. The true measure of corporate governance implies the need for fair degree of independence and professionalism on the part of these important Board Committees

V. Audit committee:
It's a very important committee especially on matters on finance and accounts-, to be effective, must have competent professionals and independent public men with experience and knowledge of business and finance, as members. Unless they also spend substantial time in assessing the performance independently and critically the Audit Committee will not serve the desired purpose. The system calls for substantial improvement.

VI. Independent Auditors:
In practice , auditors are chosen by the management and over the years the auditors develop closeness and trust in management, the audit function often does not measure up to tis role in ensuring proper accountability and transparency on transactions by management. There is the school ofthoughtgaining force that to be truly independent, auditors have to be appointed by the government/regulators and not by the company ownership/management. This is matter relating to exercise of professional independence and integrity in each case and cannot be generalized.

VII. CEO/CFO:
The operational success of a company depends largely on the efficiency/integrity of the chief executive and chief financial officer. appointment and remuneration of such senior managerial personnel have to be handled very carefully and added importance needs to e

focused on the professional quality and competence of the persons concerned the board of directors must ensure that an appropriate environment is provided to key management personnel, to perform and report in a manner that would serve the best interest of the company.

Conclusion

Corporate governance is a process which is concerned about how corporations are managed, how managers are governed, what questions face by boards of directors and the accountability a corporation has to shareholders. In this case, it can be seen that the food retailing industry has been able to implement effective corporate governance which guides the organization to become more competitive in the marketplace. Accordingly the issues concerning the board include the level of skill and care expected of the directors and inadequate financial information. In order for the organization to address the issue, the members of the board are trying to create a resolution for these issues.

In terms of positive aspects, the members of the company have been able to contribute well in ensuring competitive performance of the company. The board of directors of this organization ensures that all their actions are legal and adheres to business ethics. In addition, they also ensure that their social responsibility is also incorporated with their accountabilities.

Although the company has positive aspects, it also has its negative aspects. One of which adheres to the notion that, because of the mistakes and inconsistencies of the individual involved, it cannot always be assured that there will be no losses or errors that will occur. In ability to handle diversities and differences is also a negative aspect that can be attached with the company's corporate governance practice. Lastly, inability to ensure shareholder value is another negative aspect of the company. It is said that the shareholder is regarded as the central stakeholder of each industry.

It can be concluded that in order for the company to have a competitive business performance, the company must start from within, from its corporate governance.

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