# MAXIMIZING ORGANISATIONAL EFFICIENCY THROUGH CORPORATE GOVERNANCE

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**Abstract**

Corporate governance issues have attracted considerable attention, debate, and research worldwide in recent decades. Internationally, corporate governance norms have been initiated through a judicious mix of the three available routes: legislation, regulation and self discipline. A world class corporate governance system is where values are as important as rules. The need for corporate governance has arisen because of the increasing concern about the non-compliance of standards of financial reporting and accountability by boards of directors and management of corporate inflicting heavy losses on investors.

The collapse of international giants likes Enron, World Com of the US and Xerox of Japan are said to be due to the absence of good corporate governance and corrupt practices adopted by management of these companies and their financial consulting firms.

Corporate governance is an important part of strategic management that can improve firm performance. Despite its importance, many people are unclear about what corporate governance is precisely. Both managers and investors should understand what corporate governance is and the role that it plays in firms. Being aware of what corporate governance is will allow them to see how it affects their respective businesses.

Good governance practices entail active participation of shareholders in the direct and indirect management of corporation through the Board of Directors and an arrangement of productive checks and balances among shareholders, board of directors and management of corporations.

This paper is an attempt to study the role of Corporate Governance in improving organisational performance.

***Keywords :*** Corporate Governance, Strategic Management, Board of Directors

## Introduction

The definition of corporate governance most widely used is "the system by which companies are directed and controlled" (Cadbury Committee, 1992). More specifically it is the framework by which the various stakeholder interests are balanced, or, as the IFC states, "the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders".

The OECD Principles of Corporate Governance states: "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

## Need

Corporate governance is of interest to us as it determines the strategy of the organization and how it is to be implemented. It is also important to us because the Corporate Governance, framework determines who the organization is there to serve and how the priorities and purposes of the organization are determined.

The role of Corporate Governance – to provide entrepreneurial leadership, to set and implement strategy within a framework of effective internal controls, and to ensure the best performance of resources for stakeholders – is a challenge that has to be faced. In a past study, it was found that 70% of executives believe strong corporate governance carries more weight in the market than any other attribute.

Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market-oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization are significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights. Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

## Corporate Governance and Strategic Management

Corporate governance, in strategic management, refers to the set of internal rules and policies that determine how a company is directed. Corporate governance decides, for example, which strategic decisions can be decided by managers and which decisions must be decided by the board of directors or shareholders.

Corporate Governance is highly essential from the point of view of the shareholders, customers, employees and company and society at large for the survival and sustainable growth of the company. Strategy integrates internal environment including corporate governance and external environment. The corporate governance meets the interests all the stakeholders including the long-run interest of the company itself in a more balanced way, by regulating and controlling the misleading, immoral and unethical ideas and acts of CEO, Board of Directors and other strategists. Thus strategic management should be under the preview, control of and the provisions of corporate governance provisions and practices of a company.

**Role of Board of Directors**

The Quality of Board is a deciding factor for good corporate governance. The compositing and number are the determinants of quality. Even in a small concern the efficiency of the Board of Directors is a crucial factor for the survival in a competitive environment.

**Responsibilities of the Corporate Governance**

It is commonly believed that Corporate Governance is responsible for formulation of choice of strategy and in the implementation of strategy.

**Responsibilities of the Board of Directors**

The Board of Directors is responsible for supervising the successful management of the organization's business. It has the authority and obligation to protect and enhance the assets of the corporation in the interests of all shareholders and the company's public mission.

**Role of Top Management (Chief Executive Officer)**

The term "**top management**" refers to a relatively small group of people include president, chief executive officer, vice president, and executive vice president. Because the insights of these executives play such a critical role, a number of writers have stressed the importance of matching the characteristics of these executives with the firm's strategies. However, as an important part of the top management, the Chief executive officer (CEO) plays a dominated role in the strategic management in any company. It is described by Kenneth R. Andrews as "Chief Executive as Architect of Purpose".

*George Steiner* summarized the role of the CEO in strategic management as follows:

- The CEO must understand that strategic management is his responsibility. Parts of this task, but certainly not all of it, can be delegated.
- The CEO is responsible for establishing a climate in the organization that is congenial to strategic management.
- The CEO is responsible for ensuring that the design of the process is appropriate to the unique characteristics of the company.
- The CEO is responsible for determining whether there should be a corporate planner. If so, the CEO generally should appoint the planner (or planners) and see that the office is located as close to that of the CEO as practical.
- The CEO must get involved in doing planning.

- The CEO should have face-to-face meetings with executives for making plans and should ensure that there is a proper evaluation of the plans and feedback to those making them.
- The CEO is responsible for reporting the results of the strategic management process to the board of directors.
- The chief executive officer (CEO) is responsible for the final decisions, but its decisions is the culmination of the ideas, information, and analyses of others.

**Governance Issues**

Corporate governance has wide ramifications and extends beyond good corporate performance and financial propriety. The complexity of corporate governance arises from two main reasons. First in most countries there is no separation between ownership and management control of organization. The second is the increasing tendency to make organization more visibly accountable not only to owners (shareholders) but also to other stakeholders groups.

In the case of the first issue, it is imperative to distinguish the nature of the two basic components of governance in terms of, (a) Policy making and overnight responsibilities of the board of directors and (b) the executive and implementation responsibilities of corporate management.

The second issue is to make organizations more visibly accountable and the demand for more transparency and accountability on the part of corporations.

**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 on the share price.
- It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
- Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
- It helps in brand formation and development.
- It ensures organization in managed in a manner that fits the best interests of all.

## Principles of good corporate governance

From the above examples, we can draw some conclusions and formulate a short set of rules regarding best corporate governance practice. All the "goodies", to a great degree, abided by these rules. All the "baddies" to a large extent ignored them. The principles underlying these rules are:

**Ethical approach** - culture, society; organisational paradigm

**Balanced objectives** - congruence of goals of all interested parties

**Each party plays his part** - roles of key players: owners/directors/staff

**Decision-making process** in place - reflecting the first three principles and giving due weight to all stakeholders

**Equal concern** for all stakeholders - albeit some have greater weight than others

**Accountability and transparency** - to all stakeholders

## Conclusion

Corporate governance is an important part of strategic management that can improve firm performance. Both managers and investors should know the importance of corporate governance and the role that it plays in firms and affects their respective business. Corporate governance is the reflection of the business culture, policies, association with the stakeholders and the organisation's commitment to its values. Good corporate governance is the key to the integrity of corporations, financial institutions and markets. It is also essential to the healthy economy and the stability of the organisation. Well defined and enforced corporate governance provides a structure that works for the benefit of every individual and is concerned over the accepted ethical standards and best practices followed in an organisation.

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