PHILOSOPHICAL UNDERSTANDING THE CORPORATE GOVERNANCE FOR CORPORATE BUSINESS INTEGRITY: AN ANALYSIS

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1. Introduction:

Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. It involves balancing the interests of a company's many stakeholders, management, customers, suppliers, financiers, government and community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management from action plans and internal control to performance measurement and corporate disclosure. According to Catherwood "Corporate governance means that company manages its business in manner that is accountable and responsible to the shareholders. In a wider interpretation, corporate governance includes company's accountability to shareholders and other stakeholders such as employees, suppliers, customers and local community."

Corporate Governance is a concept and administrative framework to introduce basic directions and viewpoints for managing a business unit with best interest. It shows and determine a new and creative vision of business, where a set of core values, better managerial control, compassing human rights, making better coordination between business and society may be possible. It is concerned with holding the balance between social and economic goals and between individual and communal goals. It is also a conscious, deliberate and sustained system to make a judicious balance between its own interest and the interest of various constituents in the environment in which it is operating. It deals with the manner in which companies are directed and controlled by the Board of Directors in order to create and enhance stakeholders' value by appropriately crafting the corporate strategy that creates tomorrow's organization. Corporate governance ensures how effectively the Board of Directors and management are discharging their functions in building and satisfying stakeholders' confidence. In simple words, corporate governance refers to the accountability of the Board of Directors of a corporation towards its stakeholders. In order to protect and promote the interests of all stakeholders, corporate governance should encompass well defined set of system and processes. Systems include structural and organizational aspects like Constitution of Board of Directors, their optimum size, composition and qualifications, role and competencies, frequency of change of Board members and nominee Directors. In short, corporate governance refers to the manner in which a corporation is managed and controlled. The term 'Governance' is derived from the Latin word 'Gubernare' which means 'to steer'. In the context of

companies, governance means direction and control of a company. There is no single definition of corporate governance acceptable to all. Different experts have defined the term in their own ways.

2. Corporate Governance:

Corporate has to do with a body of persons especially one authorised to act as an individual. A company is a legal person. It can sue and be sued. But this raised a number of problems in relation to other branches of law have been made to sue companies and directors for "corporate an slaughter" .The ordinary meaning of "governance" concerns the act, manner, fact or function of governing, sway or control .There are no technical uses for these terms. "Governance" is an old-fashioned word that has come to be applied, in public debate, to the behaviour of company boards. Not just any companies, but to large ones, e.g. Public Limited Companies. The large corporations and the small ones are all governed by law, and by their directors, who are answerable in law to their shareholders. Corporate governance is the manner of general management and control of a corporation, business or corporate body. Interest in corporate governance has a long history in various contexts. The expression came to be associated in the 1990s with concern over many ethical issues in business, and some business scandals, worldwide. Patrick Mac lagan his book Management & Morality has summarised the background to modern discussions of corporate governance: In the aftermath of successive business and public sector scandals ... practical concern with corporate governance has emerged in recent years as a distinct focus of attention. It has been closely associated with the Cadbury Committee's report into financial management and accountability in listed companies. But governance has a wider relevance than that, and a much longer history.

In the mid-90s Lord Nolan's Committee on Standards in Public Life examined the governance of publicly-funded bodies and twenty years earlier, the Bullock Committee reported on the then equally topical issue of industrial democracy, recommending that employees and shareholders should have equal directorial representation on company boards and that these directors should then appoint additional, independent members. The present Labour Government appears to have no plans to revive the issues". Mac lagan adds that these initiatives have shared a common concern for two things, the monitoring and control of managerial decisions and actions, and second, the representation of stakeholders' views. Corporate governance, as Mac lagan points out, is a much wider topic than it would appear from the topical reports that he mentions. A problem that has not been fully addressed in the literature is that of what makes a claim, e.g. a "say" in management decision-making or in corporate governance, a legitimate one? Should a stakeholder have a "say" just because the stakeholder has a financial interest in the behaviour of a business as an employee, shareholder, manager, supplier, customer or neighbour? Should the interests of the stakeholders be the only matters of significance? If so, then corporate governance would be largely a matter of calculating or negotiating benefits to the various stakeholders. It is arguable that the various interested parties have other claims in addition to their financial interests.

Directors of large or small businesses have long been held to be motivated by more than salaries and benefits, however substantial they have been come. The corporate governance debate, especially in Britain has emphasised the need for non-executive directors to decide the pay of directors. This has been

regarded as particularly important in the light of many examples in which the contracts of executive directors have permitted major increases in pay, bonuses and share options despite poor performance. Shareholders, including the influential institutional investors, have objected. Several major investigations have produced major debates. But the "ownership versus control" debate and many contributions to "the theory of the firm" have identified other motivations. The economist W.J. Baumol produced arguments in the late 1950s to the effect that directors were more concerned with maximising the size of the firm for prestige and control reasons. More than a decade later, Cyert and March drew attention to the life-style of managers at work. These suggest that expectations of control, status and intrinsic rewards are prominent. All the above mentioned are matters on which managers are likely to appeal to principles and to claim a right to exercise efficient stewardship in everyone's interests. Something similar can be said for other stakeholders. The "green lobby" seeks to influence governmental and corporate policies and decisions on the grounds of' eco-friendliness' - on principles, rather than a claim for their own interests. Trade unions do seek financial gain, but like corporate directors, they have other values that wish to promote. They often cite principles, such as "the rate for the job", protection against unfair dismissal (ethical concepts) along with claims to be pursuing "legitimate interests" - also an ethical concept. A degree of control over certain decisions, and the right to defend members caught up in disciplinary matters are important to them. These are not merely matters of calculative interests. They are matters of principle, and the language of collective bargaining is replete with ethical and persuasive uses of language. Of course, not all parties accept the matters of principle that are important to the others. Where principles and interests are intermingled, the problems of legitimate governance and its acceptance are more problematic than when financial interests alone are concerned.

Corporate governance is thus a matter of control according to a mixture of principles and interests. The principles themselves may be agreed or imposed. Discussion of them may even be taboo in some corporations and organisations. Corporate governance in the modern context .In joint stock companies and corporations voting is on a basis that is proportional to the amount of capital invested, by the holders of voting shares. There sult is oligarchy, or rule by the few, or hegemony, which is the pre-eminence of one group among other groups. They are both similar in their effects. Corporate governance is much more than the determination of directors' pay and conditions and procedures for election to the board. It involves the values and expectations of the stakeholders of the business. The complexities of modern markets and technologies require managers who can provide a lead, and who need to be able to provide it on the basis of open and agreed values, agreed with members, and with other stakeholders, if the out pouring of corporate scandals is to be stemmed.

The in the organization the Corporate Governance was established more than 50 years ago on the belief that economic development and prosperity were the keys to preserving citizens' liberty and general well-being. The founding Members recognized that economic growth should be sustainable and bring the greatest amount of good to the greatest number of people. They agreed this required governments' commitment to work, both at home and abroad, to create the conditions for free, fair, and open markets. But this also entails that those who operate in such markets play by the rules. Many of the standards,

practices and recommendations developed at the organization to promote fair and open markets have been reflected in national laws and regulations. However, implementation of these frameworks applicable to business conduct, in many respects, remains a challenge. Given the role business plays in everyday citizens' lives, it is integral to the organization's goal of achieving a stronger, cleaner and fairer world economy that it focuses on corporate behaviour, as it is doing in a number of organization Committees, including the organization Corporate Governance Committee, the Working Party on State Ownership and Privatization Practices, the Competition Committee, the Working Party on Responsible Business Conduct, the Working Group on Bribery in International Business Transactions, and the Committee on Financial Markets. The importance of business integrity has never been as clear as it is in today's hyper-connected world economy. In the last half century, globalization has resulted in significant positive impacts, including higher productivity and efficiency, increased average incomes, more competition and a greater variety of goods and services.10 The extent to which businesses are operating across borders is also increasing at an exponential rate. The share of trade in global organization has tripled since 1950, and the level of outward comapny relative to organization in countries has quadrupled since the early 1970s. Most citizens live now in a global market where the level of activity generated by global businesses is unprecedented.

A. Need of Corporate Governance:

Widespread of Shareholders In today's scenario there has been widespread of shareholders all over the nations and majority of shareholders are being unorganized and having an indifferent attitude towards corporate affairs also they remain confined only to the law and the Articles of Association therefore it requires a practical implementation through code of conduct of corporate governance. Changing Ownership Structure At present the pattern of corporate ownership has been changed with institutional investors and mutual funds. These investors have become the greatest challenge to corporate managements forcing the latter to abide by some established code of corporate governance in order to build up its image in society. Corporate Scams or Scandals Corporate scams or frauds in the recent years have shaken public confidence in corporate management. Therefore the need for corporate governance is then imperative for reviving investors' confidence in the corporate sector towards the economic development in society. Greater Expectations of society towards the Corporate Sector In today's scenario, the expectation of society towards corporate sector is higher in terms of reasonable price, better quality, pollution control etc. To meet these social expectations there is a need for a code of corporate governance. Hostile take-overs There should be hostile take-over of the companies so that efficiency of management can be maintained. This factor points out the need of corporate governance in the form of efficient code of conduct for the corporate management. Huge increase in top management compensation In both developed and developing economies there has been a great increase in salary or compensation packages to the top level corporate executives and there is no justification for high payment to the top management. And this factor necessitates corporate governance to contain all the ill-practices of top management of the company. Globalization The want and desire of more Indian companies to get listed on International

stock exchanges also focused on the need for corporate governance as the international market recognized only those companies which are well managed according to standard code of corporate governance.

B. Scope of Corporate Governance:

The board of directors should be accountable to the owners of the company i.e. shareholders. Corporate Governance is the interaction between various participants in shaping corporation's performance. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance and all these dimension should not be overlooked. Corporate Governance distinguishes between the owners and the managers. The managers are the deciding authority. Thus, the functions or tasks of owners and managers should be clearly defined rather harmonizing. Quality and competence of Directors Corporate Governance deals with determining the ways to take effective strategic decisions. It gives ultimate responsibility to the Board of Directors. Transparency i.e. the right to information, time liners and integrity of the information produced. Corporate Governance ensures transparency which brings strong and balanced economic development. This also ensures that the interest of all shareholders is safeguarded. It ensures that all the shareholders fully exercise their rights and that the organization fully recognizes their rights. Broad coverage or scope Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral as well as ethical environment. Adherence to the rules Systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, sustainable, relevant and legitimate for competitiveness and sustainability.

C. 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 the managers to achieve objectives that are in interests of the shareholders and the organization. Good corporate governance also minimizes wastages, corruption, risks and mis-management. It helps in brand formation and development. It ensures organization to be managed in a manner that fits the best interests of all.

D. Principles of Corporate Governance:

Transparency is something which brings openness and enables one to understand the truth easily. In the context of corporate governance it implies an accurate, adequate and timely dis- closure of relevant information about the operating system of the enterprise to the stakeholders. In fact transparency is the foundation of corporate governance which helps to develop a high level of public confidence in the corporate sector. For ensuring transparency in corporate administration, a company should publish relevant information about corporate affairs in leading newspaper e.g. on quarterly or half yearly or annual basis. Accountability is a liability to explain the results of one's decision taken in the interest of others. In the context of corporate governance, accountability implies the responsibility of the chairman, the Board of directors and the chief executives for the use of company's resources in the best interest of

company and its stakeholders. Independence Good corporate governance requires independence on the part of the top management of the corporation i.e. the Board of Directors must be strong, nonpartisan body so that it can take all corporate decisions based on business prudence. Without the top management of the company being independent, good corporate governance is only a mere dream.

E. Advantages of Corporate Governance:

1. Growth & Development
2. Goodwill & image creation
3. Maintenance of investor confidence
4. Increase value of shares
5. Reduces the chances of mismanagement
6. Increase of productivity
7. Increase of market capitalization of the business
8. Benefits to all stakeholders
9. Payment of regular tax to the government.

F. Disadvantages of Corporate Governance:

Separation of ownership & management and Increase in administrative cost. The Project aims to accomplish this by encouraging companies to adopt effective, more integrated business integrity policies rooted in efficient corporate governance frameworks, in order to help prevent a corporation from being used for, or engaging in, serious corporate misconduct. The International Project does not seek to create new standards or to duplicate existing ones. Rather, it serves as an opportunity for dialogue between governments, businesses, and other relevant stakeholders who seek to promote actionable and effective measures and best practices for business integrity, including those set forth in organization instruments.

3. Framework of Corporate Integrity:

This paper defines the term corporate integrity and proposes a framework to assess the existence of corporate integrity. Corporate integrity is defined as a state or condition in which the objectives of the managers and the shareholders of a corporation are undivided and complete. The compensation of the managers and the shareholders is selected as a subset of the objectives. If both the managers' and the shareholders' compensation schemes (returns) are undivided and complete, the corporation exhibits integrity. A rolling corporate integrity index is constructed based on the relationship between manager and shareholder compensation. A case study focussing on the firms comprising the German stock market index shows that only a fraction exhibit corporate integrity.

4. Conclusion:

With the introduction of open economic policies and the continuity of these policies by successive governments, the private sector has become the dominant force of economy. As a result there has been a significant growth in the corporate sector, particularly of the public listed companies. Economic policy changes have provided avenues for opening investment opportunities in the capital market for

both local and foreign investors, resulting in significant improvements in contributions made by the corporate sector particularly the public listed companies to economic growth. Hence, corporate governance is now a vital issue for the economy as it facilitates increasing investors' confidence and thereby securing access to capital through the stock market. In addition, the failures of a large number of well-known companies and the regional economic crisis have intensified an understanding of the need for corporate governance in economic development. In this context, it is important to review existing regulatory and institutional frameworks of corporate governance to assess the governance practices of companies. More importantly, some governance practices may need to be adapted or new practices needed to suit local conditions. Furthermore, non-compliance with some of these practices may be due to non-compatibility to company-specific conditions such as ownership concentration, family ownership and representation of owners on boards. However, only limited information is available due to a dearth of prior studies examining these issues. Hence, it is imperative to conduct an in-depth study to assess the current status of corporate governance practices in order to identify deficiencies and to find out remedial actions to improve the existing corporate governance practices.

The study is based on the public listed companies of their stakeholders. The objectives of the study are achieved through three empirical investigations: first a survey of compliance with corporate governance best practices; second a survey of stakeholders' perceptions of corporate governance practices; and, third an examination of the impact of ownership concentration on firm performance in listed companies. Furthermore, an analysis of legal and institutional frameworks of corporate governance practices of their evolution is also undertaken to assess the present status of corporate governance requirements.

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