A STUDY ON CORPORATE GOVERNANCE: AN OVERVIEW AND THE KEY ROLE OF VARIOUS STAKEHOLDERS

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ABSTRACT

In this era of scams and scandals the need of corporate governance has been emerged as a big issue in corporate sector. The corporate governance is concerned with holding equilibrium between economic and public goals and also with individual and collective goals. Therefore, the present paper is concerned with mainly the overview of the need of the corporate governance and also identifies the challenges for corporate governance in India. The overall conclusion of the present study is that governance should make some serious efforts for transparency and ethics. Healthy competition, positivity and confidence are the pillars on which foundation of effective corporate governance can be kept. The directors, executives and other decision makers should have to develop new vision, innovative skills and creativity to manage organizations in a changing global scenario. On the whole, active participation of all stakeholders is required for the successful implementation of the corporate governance.

KEYWORDS: Corporate governance, transparency, Ethics, Stakeholder.

INTRODUCTION

There has been a growing international concentration on corporate governance, particularly in the wake of worldwide financial turbulence and scams. The corporate scams all over the world have witnessed significant changes marked by restructuring, merger and acquisitions, takeovers, strategic alliances etc. As a consequence, the issue of public accountability through corporate governance has been brought into sharper focus.

Even in India the corporate world could not remain in different to the development of strict law, rules and regulations such as Rahul Bajaj Committee (1977), Kumar Manglam Birla Committee (1999), Naush Chandra Committee (2002), Naryan Murthy Committee (2003) report on Corporate Governance made many recommendations for good governance. In spite of all these regulations, rules, codes and recommendations, the famous Satyam Scam was in India in January 2009.
The Concept of Corporate Governance
The concept primarily rests on basic principle of corporate governance i.e., fairness, integrity, transparency and accountability of Management, with a sharp focus on investor protection and maximizing of shareholder wealth. A key element of good governance lies in maintaining transparency which incorporates a system of check and balances between key players like stakeholders, boards, management, auditors and investor and others.

Corporate governance is not just corporate management; it is much broader to include a fair, efficient and transparent administration to meet certain well defined goals. 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 practiced under a well-laid out system, it leads to building of a legal, commercial and institutional framework and demarcates the boundaries within which these functions are performed.

In corporate sector, the whole structure is based on relationship among people who are involved directly or indirectly in business ventures. Relationship between Satya & Success in corporate sector is represented in this manner:
Review of literature

Chakrabarti (2005) outlined the importance of corporate governance to the financial development of developing countries: Research has established that financial development is largely dependent on a country’s investor protection. He noted that despite India’s possession of “one of the best corporate governance laws”, governance has been adversely affected owing to poor implementation of the law together with socialistic policies of the Indian pre-reform era. The Indian corporate landscape continues to be marred by factors such as the concentrated ownership of shares, and the pyramiding and tunneling of funds amongst group companies. However, the author also examined certain changes since this period of liberalization: for example, he noted such efforts to overhaul the system as the SEBI’s amendment to Clause 49 of the Listing Agreement (dealing with corporate governance), and the evolution of governance of Indian banks towards a more market-based structure. Garg (2007) also proved inverse relationship between board independence and performance but concluded that decline in performance of the companies lead to appointment of more independent directors. Khanna and Black (2007) used India’s adoption of the major governance reforms ‘Clause 49’ to address what they call an “identification issue” of the valuation effects of corporate governance reforms. As reforms usually affect all firms in a country, share price changes may reflect the reforms, but also other information external to them. However, the Clause 49 reforms initially targeted only larger Indian firms; they were applied to smaller public firms several years later. The authors seize upon this time window as an opportunity to study the reforms’ effects on the larger firms. They find that the price of large firms increased by 10% relative to smaller public firms over a period of two weeks immediately after the announcement by Indian securities regulators to adopt the reforms in May 1999. Banik (2010) in his article “Business Ethics and Corporate Governance-A global perspective” concluded that there is an inevitable connectivity between business ethics and corporate governance. No organization can exist and function for long except on moral foundation. Without proper improvement being made in the areas of recruitment, selection, performance appraisal, performance management, compensation and benefits, ethics can’t be ensured in any organization. Reddy and Akula (2011) under his article “Corporate Governance-the role of various stakeholders” found that corporate world should build confidence among the investors and others stakeholders through transparent managerial practices. All level of people such as executives and employees should adhere to the code of ethics in the organization. They found that corporate governance will succeed if everybody feels their responsibility. Aslam et. al (2012) tested the impact of corporate governance measures on organizational performance of listed companies of 100-index of Karachi Stock Exchange(KSE). The study used ordinary least square regression analysis and the results of the study are consistent with organizational theory and Agency theory of corporate governance. Maini (2012) in their study discussed the investor protection measures. The study discussed various legislative measures related to investors’ protection. The study has concluded that SEBI has put in place numerous regulations in every aspect of capital market but it has failed to prevent manipulation of stock prices.
Objective of the study

- To present the overview of the need of the corporate governance and also identifies the challenges for corporate governance in India.

Evolution and Challenges

This paper aims to provide constructive and detailed suggestions for the broadening and deepening of sound corporate governance in India. Although there have been numerous recent reforms in some areas of governance (for instance, in the area of company boards, independent directors, and disclosure and accounting standards), there are certain areas that still need to be addressed; for example, the accountability of controlling shareholders and the governance of the audit profession. The White Paper focuses on five key areas: shareholder meetings and voting, related-party transactions, preferential warrants, corporate disclosure and the auditing profession, and detailed suggestions as to how governance in each area can be improved (Asian Corporate Governance Association, 2010.) Dr. Geeta Gouri has explained the importance of corporate governance in the following lines: “Corporate governance is a system by which companies are run. It relates to the set of incentives, safeguard and dispute resolution process that are used to control and coordinate the actions of the agents on behalf of shareholders by the board of directors. Shareholders are responsible for appointing the directors and auditors. Creating of residual value is the primary concern of the shareholders, but the process of value creation and its legality are equally important. Hence, corporate governance relates to a code of conduct, management of the company observes while exercising its power.”

Good corporate governance is always based on the pillars of honesty, responsibility, trust and integrity, ethical behavior, performance orientation, transparency, mutual respect and commitment to organization. Gabrielle O’Donovan, a business author, defines the corporate governance as “An internal system encompassing policies, process and people, which serves the need of the shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability, and integrity. Sound corporate governance is reliant on external marketplace commitment and legislation, and also on a healthy board culture which safeguards policies and processes”.

The explanation of the role and challenges of various stakeholders is as follows:

Shareholders
The market works with two types of shareholders, viz. Institutional shareholders and Individual shareholders. The shareholders play a key role in any organization. The organization should respect the importance of shareholders and their rights. The challenge before shareholders is to keep an eye on the decision of the company and regularly examine the performance of the company. If there is any discrepancy found, the shareholders have the rights to raise their voice in the Annual General Meeting of the company. Further, the duty of the shareholders is to attend the Annual General Meeting and take active participation in selection of Directors so that the organization can perform accordingly.
Board of Directors

The Board of Directors is the pivot of corporate governance. The Board of Directors should have a range of skills and understanding power to deal with various issues related to organization and various stakeholders. They should also have the ability to review and challenge management performance. The challenges before Board of Directors are to improve the efficiency of management, good relationship with shareholders make technological changes to meet the market expectations and easily make effective use and development of human resource.

Accountants

Accountants play very vital role in corporate governance. The management takes their decisions on the basis of financial reporting provided by the accountants. So, these financial information’s should be made with statutory and ethical obligations that the directors of the company could rely on it. The challenges before the accountants are to prepare the financial reporting on the basis of Generally Accepted Accounting Practices and also to disclose all the relevant information that are beneficial for the shareholders.

Auditors

A good financial reporting is not a sufficient condition for the effectiveness of corporate governance if users don’t process it. The role of Audit committee flows directly from the board oversight function. It acts as a catalyst for effective financial reporting. According the Companies Act (1956), the shareholders have the authority to appoint the auditors. But, in general, shareholders never propose the name of the auditor in Annual General Meeting. Thus, the shareholders should understand their rights and intimate the strong relationship with the auditor. The challenge before auditor is to maintain its independence and provide right information to the shareholders.

Government

The role of governance is very significant in Corporate Governance. The role of the Government is to provide healthy environment to mobilize large amount of investment from the investors and also to check regularly the practices of the companies. The challenge before the government is to make regular amendments in acts for the welfare of investors and also to play the role of watching. The government has to play the role of watchdog. Government has to keep check on the policies made by the company and also constitute committees to improve the performance of management.

Conclusion

Investors are very important stakeholder; they are crucial player in order to translate better corporate governance practices into better access to capital for firms. Sound corporate governance ensured that all stakeholders including depositors are protected. Corporate governance will succeed if everybody feels their responsibility.

Corporate governance represents the values framework, the ethical framework and moral framework under which business decisions are taken. Corporate governance has succeed in
attractive a good deal of public interest because of its apparent importance for the economic health of corporation and society in general. Moreover, with growing public awareness and interest in globalization. With the opening of economies worldwide, the main thrust is to enhance, competitiveness for sustainable development in the competitive environment. Free and fair market economic rules should rightly establish. Moreover, transparency and fairness in the market competitors should be ensured.

Recommendations

- Weed out the members of the controlling family and make sure that non-executive directors are independent.
- Meetings should be reviewed so that director’s role can be recognized timely.
- One man dominance on higher level jobs should be abolished.
- Director should be appointed who have experience in concerned sector.
- Become wider and intensify Disclosure on corporate web site and in annual reports.
- Excuses and cheating should have proper check and not to be compromised.
- Corporate bosses should restrict from selling shares in their firms while they head them.
- There should be a distinction between the corporation and politics.
- Accountable role of auditors in the context of stakeholders.
- There should be self awareness among the shareholders regarding their rights.
- Monitoring and managing of interest of management, board members and shareholder including misuse of corporate asset and abuse in the related party transaction.
- The solution of the problem of governance does not lie in spelling out and impressive code of conduct only but its effective implementation is required.

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