**Introduction to Corporate Governance:**

**1.0 Corporate Governance ISSUES:**

**Governance,** the root of the word Governance is from ‘gubernate’, which means to steer. Corporate governance would mean to steer an organization in the desired direction. The responsibility to steer lies with the board of directors/ governing board.

**Corporate** or a Corporation is derived from Latin term “corpus” which means a “body”. Governance means administering the processes and systems placed for satisfying stakeholder expectation.

When combined, Corporate Governance means a set of systems procedures, policies, and practices, standards put in place by a corporate to ensure that relationship with various stakeholders is maintained in transparent and honest manner. Corporate Governance is concerned with the intrinsic nature, purpose, integrity and identity of an organization with primary focus on the entity’s relevance, continuity and fiduciary aspects*.*

**What is corporate governance?**

Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals.

The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources.

The concept of governance has been known in both political and academic circles for a long time, referring generally to the task of running a government, or any other appropriate entity for that matter.

Corporate governance is therefore the process whereby people in power direct, monitor and lead corporations, and thereby either create, modify or destroy the structures and systems under which they operate.

The primary purpose of corporate leadership is to create wealth legally and ethically.

This translates to bringing a high level of satisfaction to five constituencies -- customers, employees, investors, vendors and the society-at-large.

**Definitions of Corporate Governance**

There is no universal definition of corporate governance.

Some good definitions are given hereunder for your better understanding: -

Noble laureate Milton Friedman defined Corporate Governance as “the conduct of business in accordance with shareholders’ desires, which generally is to make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs.”

 “Corporate Governance is concerned with the way corporate entities are governed, as distinct from the way business within those companies are managed.

Corporate governance addresses the issues facing Board of Directors, such as the interaction with top management and relationships with the owners and others interested in the affairs of the company.” **Robert Ian (Bob) Tricker** (who introduced the words corporate governance for the first time in his book in 1984)

“Corporate Governance is about promoting corporate fairness, transparency and accountability”.

***James D. Wolfensohn (Ninth President World Bank)* OECD** Corporate governance structure specifies the distribution ofrights and responsibilities among different participants in thecompany such as board, management, shareholders andother stakeholders; and spells out the rules and procedures for corporate decision-making. By doing this, it provides the structure through which the company’s objectives are set along with the means of attaining these objectives as well asfor monitoring performance. “A system by which business Corporations are directed and controlled” **Cadbury** **Committee, U.K**

“Corporate governance deals with laws, procedures, practices and implicit rules that determine A Company’s ability to take informed managerial decisions *vis-à-vis* its claimants - in particular, its shareholders, creditors, customers, the State and employees.

**Confederation of Indian Industry (CII) – Desirable Corporate Governance Code (1998)**

“Strong corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure.”

***Report of Kumar Mangalam Birla Committee on Corporate Governance constituted by SEBI (1999)***

“Corporate Governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company.”

***Report of N.R. Narayana Murthy Committee on Corporate Governance constituted by SEBI (2003)***

“Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.”

**Objectives of Corporate Governance**

To align corporate goals of its stakeholders (society,shareholders,etc.)

Corporate governance a way of Life rather than a Code

To strengthen corporate functioning and discourage mismanagement

To achieve corporate goals by making investment in profitable investment outlets.

To specify responsibility of the B.O.D and managers in order to ensure good corporate performance.

*There is a global consensus about the objective of ‘good’ corporate governance: maximising long-term shareholder value.”*

Corporate Governance is a system of structuring, operating and controlling a company with the following specific aims:—

(i) Fulfilling long-term strategic goals of owners;

(ii) Taking care of the interests of employees;

(iii) A consideration for the environment and local community;

(iv) Maintaining excellent relations with customers and suppliers;

(v) Proper compliance with all the applicable legal and regulatory requirements.

**2.0 NEED for Corporate Governance:**

Corporate Governance is needed to create a corporate culture of Transparency, accountability and disclosure. It refers to compliance with all the moral & ethical values, legal framework and voluntary adopted practices. This enhances customer satisfaction, shareholder value and wealth.

***Corporate Performance:*** Improved governance structures and processes help ensure quality decision-making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and its sources of finance. This can be linked with improved corporate performance- either in terms of share price or profitability.

***Enhanced Investor Trust:*** Investors consider corporate Governance as important as financial performance when evaluating companies for investment. Investors who are provided with high levels of disclosure & transparency are likely to invest openly in those companies. The consulting firm McKinsey surveyed and determined that global institutional investors are prepared to pay a premium of upto 40 percent for shares in companies with superior corporate governance practices.

***Better Access to Global Market:*** Good corporate governance systems attracts investment from global investors, which subsequently leads to greater efficiencies in the financial sector.

***Combating Corruption:*** Companies that are transparent, and have sound system that provide full disclosure of accounting and auditing procedures, allow transparency in all business transactions, provide environment where corruption will certainly fade out. Corporate Governance enables a corporation to compete more efficiently and prevent fraud and malpractices within the organization.

***Easy Finance from Institutions:*** Several structural changes like increased role of financial intermediaries and institutional investors, size of the enterprises, investment choices available to investors, increased competition, and increased risk exposure have made monitoring the use of capital more complex thereby increasing the need of Good Corporate Governance. Evidence indicates that well-governed companies receive higher market valuations. The credit worthiness of a company can be trusted on the basis of corporate governance practiced in the company.

***Enhancing Enterprise Valuation:*** Improved management accountability and operational transparency fulfill investors’ expectations and confidence on management and corporations, and return, increase the value of corporations.

***Reduced Risk of Corporate Crisis and Scandals:*** Effective Corporate Governance ensures efficient risk mitigation system in place. The transparent and accountable system that Corporate Governance makes the Board of a company aware of all the risks involved in particular strategy, thereby, placing various control systems to monitor the related issues.

***Accountability:*** Investor relations’ is essential part of good corporate governance.

Investors have directly/ indirectly entrusted management of the company for the creating enhanced value for their investment. The company is hence obliged to make timely disclosures on regular basis to all its shareholders in order to maintain good investor’s relation. Good Corporate Governance practices create the environment where Boards cannot ignore their accountability to these stakeholders.

**Importance of Corporate Governance**

It shapes the growth and future of capital markets of the economy

It helps in raising funds from capitals markets

It links company’s management with its financial reporting system.

It improves efficiency and effectiveness of the enterprise and wealth of the economy

It improves international image of the corporate sector and enables home companies to raise global

 It help management to take innovative decisions for effective functioning of the enterprise

**3.0 CODE of best Corporate Practices:**

The main objective of the Code of Best Corporate Governance Practices is to suggest courses of action to all types of companies

– Whether listed or privately held corporations, limited liability companies or partnerships

– With a view to: improving their performance facilitating access to capital

**The Code is made up of six parts:**

**Owners** – shareholders, stakeholders or partners

**Board of Directors** – the body representing the owners

**Management** – the chief executive officer and top managers

**Auditing** – the independent auditors

**Surveillance** – the fiscal council

**Ethics/Conflicts of interest**

The Code may include issues already covered by legislation or subject to new laws or regulations, but their application should be voluntary.

Business owners willing to improve performance or gain access to capital are advised to follow the Code.

Access to capital is not restricted to public offerings of shares, it also involves private equity operations and funds from a company’s own cash flow generated through improved performance.

The **pillars** of this Code of Best Practice of Corporate Governance are

**Transparency**

The Code requires that the CEO and management meet different information and transparency needs of the owners, the board of directors, the independent auditors, the supervisory board, the stakeholders, and the public at large.

**Accountability**

The following agents of corporate governance

Board of directors,

CEO and management,

Independent auditors

Fiscal council should account for their results and activities to those bodies that elected them.

**Fairness**

Relations between all agents of corporate governance and the different types of owners must be based on fair treatment of all the parties involved.

**Ethics**

Good corporate governance is to comply with the law. In addition every company should have a statement of values and a code of ethics. The key issue of ethics is the avoidance of conflict of interests.