CORPORATE GOVERNANCE

CONTENTS

- Corporate
- Governance
- Definition of corporate governance
- Objectives
- Aim and purpose
- Importance
- Reasons for growing need and demand
- History of CG in India
- Framework
- Principles
- Board responsibilities
- Conclusion.

CORPORATE

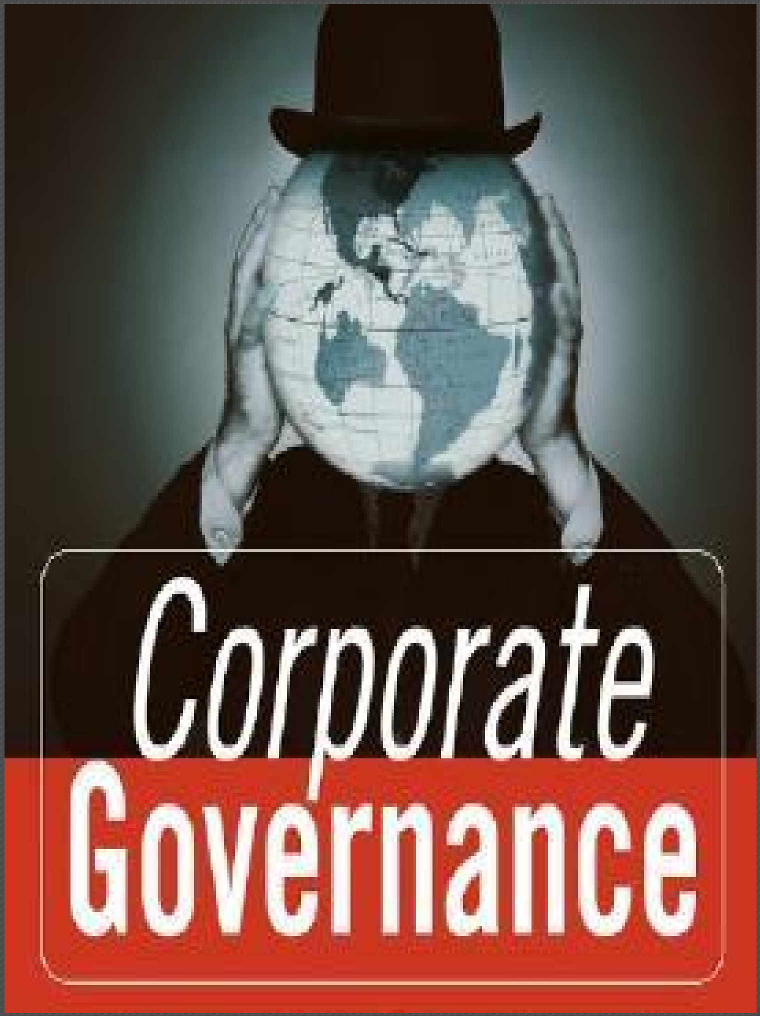
- A corporation is an organization created (incorporated) by a group of shareholders who have ownership of the corporation.
- The elected board of directors appoint and oversee management of the corporation .

GOVERNANCE

- Oxford English dictionary defines “governance "as the act, manner , fact or function of governing sway control.
- The word has Latin origins that suggest the notion of “steering". it deals with the processes and systems by which an organization or society operates.
- Governance can be used with reference to all kind of organizational structure .

CORPORATE GOVERNANCE

- "A system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers".



OBJECTIVES OF GOOD CORPORATE GOVERNANCES

- Strengthen management oversight functions and accountability.
- Balance skills, experience and independence on the board appropriate to the nature and extent of company operations.
- Establish a code to ensure integrity.
- Safeguard the integrity of company reporting.
- Risk management and internal control.
- Disclosure of all relevant and material matters.
- Recognition and preservation of needs of shareholders.

THE AIM AND PURPOSE OF CORPORATE GOVERNANCE

- The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources.
- The aim is to align as nearly as possible the interests of individuals, corporations, and society.
- The incentive to corporations and to those who own and manage them to adopt internationally accepted governance standards is that these standards will help them to achieve their corporate aims and to attract investment.
- The incentive for their adoption by states is that these standards will strengthen the economy and discourage fraud and mismanagement.

IMPORTANCE OF CORPORATE GOVERNANCE

- Shapes the growth and future of capital market & economy.
- Instrument of investor's protection.
- Protecting the interest of Shareholders and all other stakeholder.
- Contributes to the efficiency of the business enterprise.
- Creation of wealth.
- Enables firm to compete internationally in sustained way.
- Keeps an eye on the issues of insider training.

REASONS FOR THE GROWING DEMAND FOR CORPORATE GOVERNANCE

- Inadequacies and failures of an existing system often bring to the fore the need for norms and codes to remedy them. This is true of corporate governance too. Deficiencies in the Accounting Standards became more evident after many companies, in their eagerness to increase earnings and accelerate growth, exploited the weaknesses in the accounting standards to show inflated profits and understate liabilities.

REASONS FOR GROWING DEMAND FOR CORPORATE GOVERNANCE

- The growing awareness of investors and investors group of their rights.
- Economic reforms that allowed the growth of free enterprise and freed private investment opportunities.
- Exposures of domestic private and public sector companies to greater domestic and foreign competition ,which has multiplied choices for consumers and compelled increases in efficiency.

- The consequential changes in the shareholding pattern of private and public sector companies.

- The stock exchanges becoming increasingly conscious of their roles as self regulatory organizations and exploring the possibility of using the listing agreement as a tool for raising the standard of corporate governance

BRIEF HISTORY OF CORPORATE GOVERNANCE IN INDIA

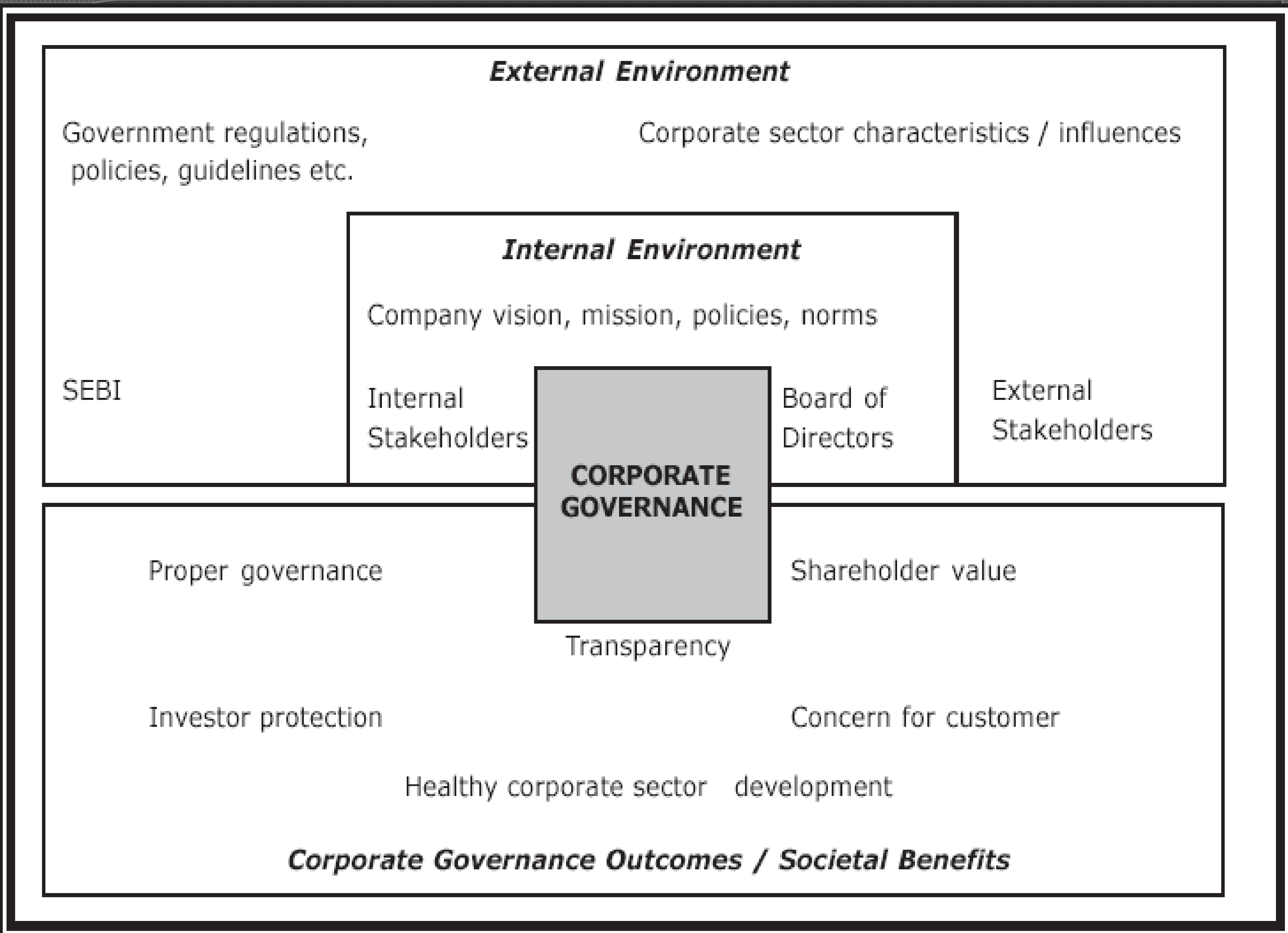
- Following CII's initiative, the Securities and Exchange Board of India (SEBI) set up a committee under Kumar Mangalam Birla to design a mandatory-cum-recommendatory code for listed companies
- The Birla Committee Report was approved by SEBI in December 2000
- Became mandatory for listed companies through the listing agreement, and implemented according to a rollout plan.

- Following CII and SEBI, the Department of Company Affairs (DCA) modified the Companies Act, 1956 to incorporate specific corporate governance provisions regarding independent directors and audit committees.

- In 2001-02, certain accounting standards were modified to further improve financial disclosures. These were:
  - Disclosure of related party transactions.
  - Disclosure of segment income: revenues, profits and capital employed.
  - Deferred tax liabilities or assets.
  - Consolidation of accounts.

FRAMEWORK OF GOVERNANCE

- Supervisory board/committee/team
- Audit committee
- Internal audit
- Statutory audit
- Disclosure of information
- Risk management framework
- Internal control framework


External Environment
Government regulations, policies, guidelines etc.
Corporate sector characteristics / influences
SEBI
Internal Environment
Company vision, mission, policies, norms
Internal Stakeholders
Board of Directors
External Stakeholders
CORPORATE GOVERNANCE
Proper governance
Shareholder value
Transparency
Investor protection
Concern for customer
Healthy corporate sector development
Corporate Governance Outcomes / Societal Benefits

PARTIES TO CORPORATE GOVERNANCE

- Board of directors
- Managers
- Workers
- Shareholders or owners
- Regulators
- Customers
- Suppliers
- Community.

PRINCIPLES OF CORPORATE GOVERNANCE

- Rights and equitable treatment of share holders.
- Interests of other stakeholders.
- Role and responsibilities of the board.
- Integrity and ethical behavior.
- Disclosure and transparency.

PRICIPLES OF CORPORATE GOVERNANCE

- Every listed company should be headed by an effective board which should lead and control the company.
- There should be board balance of executive & non executive directors such that no individual can dominate the board decision making.
- The board should be supplied with timely information to enable it to discharge its duties.
- There should be formal and transparent procedure for the appointment of new directors to the board.
- All directors should be required to submit themselves for re-election at regular intervals and at least every three years.

FACTORS INFLUENCING QUALITY OF GOVERNANCE

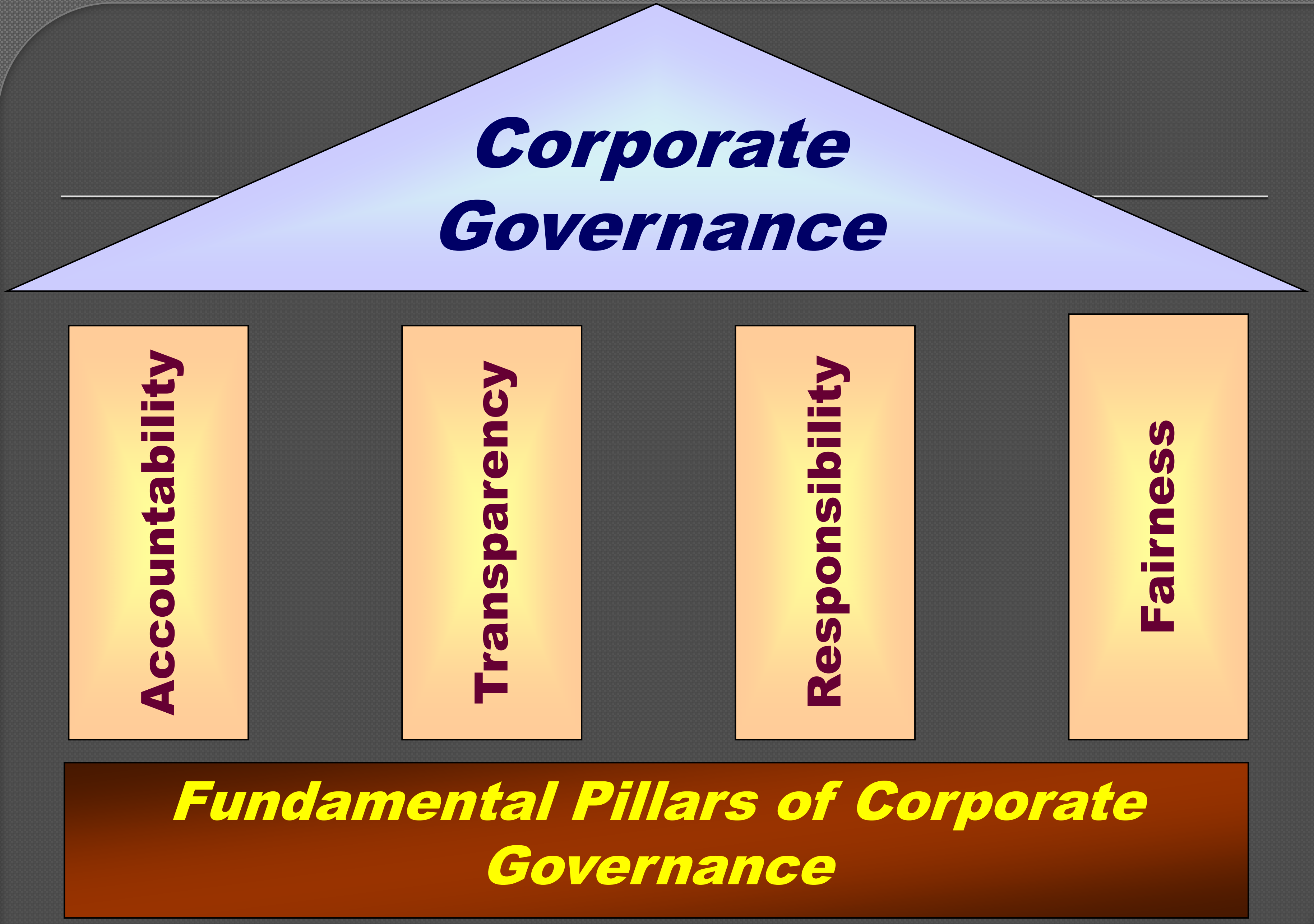
- Integrity of the management
- Ability of the board
- Adequacy of the process
- Commitment level of individual board members
- Quality of corporate reporting
- Participation of stakeholders in the management

TRENDS IN CORPORATE GOVERNANCE

- Demand for greater transparency and accountability
- Written job descriptions detailing roles and responsibilities of chairman and board members.
- Development of performance criteria and annual evaluations of the board.
- Orientation for new members.
- Ongoing training
- Succession planning

HE BOARD RESPONSIBILITIES

- Overseeing strategic development & planning
- Management selection, supervision and upgrading.
- Maintenance of good member relations.
- Protecting and optimizing the organization’s assets.
- Fulfilling legal requirements.


Corporate Governance
Accountability
Transparency
Responsibility
Fairness
Fundamental Pillars of Corporate Governance

ACCOUNTABILITY

Clarifying governance roles & responsibilities, and supporting voluntary efforts to ensure the alignment of managerial and shareholder interests and monitoring by the board of directors capable of objectivity and sound judgment.

TRANSPARENCY

Requiring timely disclosure of adequate information concerning corporate financial performance

RESPONSIBILITY

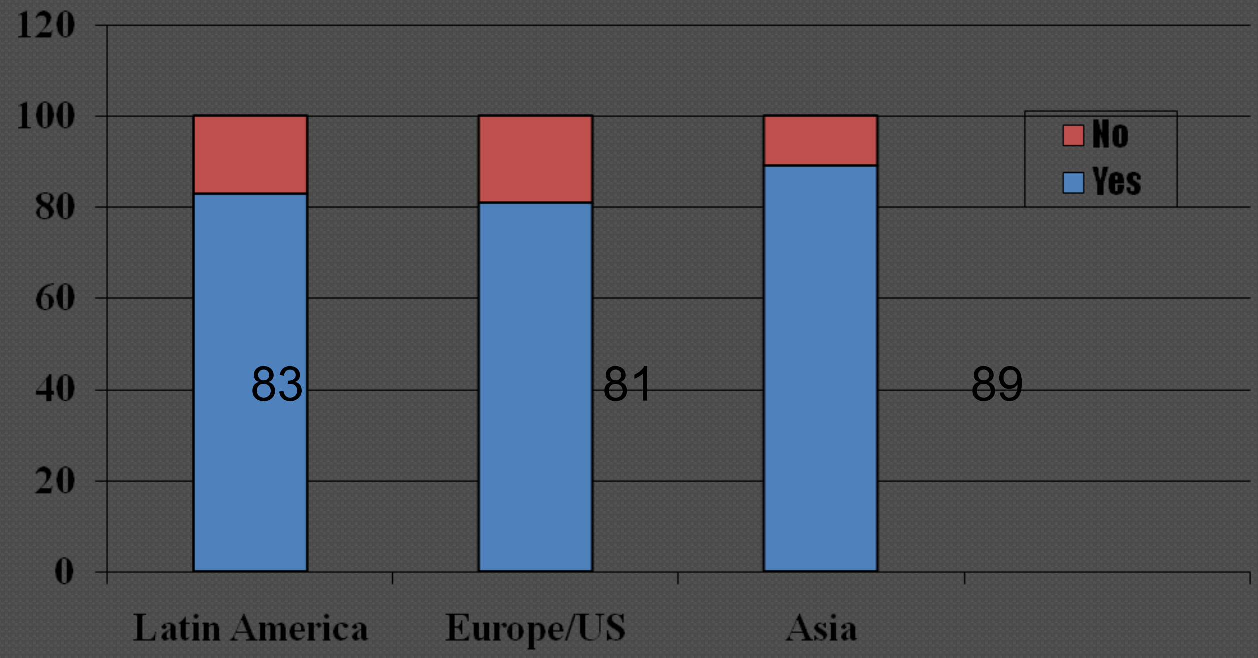
Ensuring that corporations comply with relevant laws and regulations that reflect the society's va*lues*

FAIRNESS

Ensuring the protection of shareholders' rights and the enforceability of contracts with service/resource providers

CORPORATE GOVERNANCE

Investors are Willing to Pay More For a Company With Good Board Governance Practices



Companies are willing to pay 18 % to 28% more for better governance.

CSI NATIONAL AWARD FOR EXCELLENCE IN CORPORATE GOVERNANCE

Best Governed Companies

Infosys®
POWERED BY INTELLECT
DRIVEN BY VALUES

आईबीपी
IBP

TATA STEEL

DR.REDDY'S
LIFE.RESEARCH.HOPE

BSES

CONCLUDING OBSERVATIONS

- Code of CG should be redesigned to reflect international best practices
- Stringent enforcement of Law
- More effective coordination and cooperation between SEBI, DCA
- CG mechanism should be flexible and suitable
- Overall ethical values in all segments should be promoted for effective accounting, auditing, disclosure and transparent system.

MANDATED CG GUIDELINES AND DISCLOSURES

Board of Directors: information that must be supplied

- Annual, quarter, half year operating plans, budgets and updates.
- Quarterly results of company and its business segments.
- Minutes of the audit committee and other board committees.
- Recruitment and remuneration of senior officers.
- Materially important legal notices and claims, as well as any accidents, hazards, pollution issues and labor problems.
- Any actual or expected default in financial obligations.

- Details of joint ventures and collaborations.
- Transactions involving payment towards goodwill, brand equity and intellectual property.
- Any materially significant sale of business and investments.
- Foreign currency and other risks and risk management.
- Any regulatory non-compliance.

CONCLUSION

- **There are several corporate governance structures available in the developed world but there is no one structure, which can be singled out as being better than the others. There is no "one size fits all" structure for corporate governance. The Committee’s recommendations are not therefore based on any one model but are designed for the Indian environment.**

Corporate governance extends beyond corporate law.

THANK YOU