Chapter 13 – Corporate Governance

Introduction

Corporate governance is the lifeline of any business that needs to sustain its existence. It is in general over and beyond law and regulation in the domain of corporate affairs. Corporate governance is tightly tied with the purpose of the organisation and how the firm define its business. Numbers of cases organisations have collapsed because of bad governance.

Defining Corporate Governance

Involves a set of relationships between a company management, board, shareholders and other important stakeholders like employees, partners, society etc. The governance framework provides the structure through which an organisation is able to set its objectives and monitor its performance on a regular basis.

Fundamentals of Corporate Governance

- Shareholders of an organisation have relationship will all other stakeholders because it is their money at stake
- Way in which companies are directed and controlled

Stakeholders in a modern corporation

- **External stakeholder** – Shareholders, debt holders, trade creditors, suppliers, customers and communities
- **Internal Stakeholders** – Board of Directors, executives and other employees

Principles of Corporate Governance

- **Rights and equitable treatment of shareholders** – Organisations to respect rights of shareholders and help shareholders to exercise those rights
- **Interest of other stakeholders –** Organisation have obligations to non-shareholder stakeholders like creditors, suppliers, communities etc.
- **Risk and Responsibilities of the Board-** Board needs to meet requirements as to skills, understanding of business, numbers, independence and commitment

- **Disclosure and transparency**-Clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability

Regulations, Codes and Guidelines with respect to corporate governance

- Sarbanes-Oxley Act of 2002
- OECD Principles
- Stock exchange listing standards
- Other guidelines line International Corporate Governance Network

Corporate Governance in India

- SEBI guidelines and norms
    - Market regulator has listed requirements for compliance in the listing agreement
    - SEBI has also issued guidelines under the Clause 49 of listing agreement
    - Key standards of SEBI are as follows
        - Compulsory whistle blower policy
        - No stock options for independent directors
        - Separate meetings of independent directors
        - Setting up stakeholders relationship committee
        - Enhanced disclosure of remuneration policies
        - System to evaluate performance of all directors
        - Prior approval of audit committee for all party transactions
        - Stakeholders special resolution from material related transactions
        - At-least one woman director on the board of every listed company

Purpose of Corporation

- The purpose of corporation is not just to meet the financial interest and profitability motive of the shareholders, but also to serve the society and other stakeholders in all fairness.
- Corporate ethical behaviour can be looked at a number of ways how the organisation behaves during various challenges

Corporate Social Responsibility

- CSR is generally the expectation that the corporate organisation should serve both the societal needs and financial interests of shareholders
- Corporate adopt CSR policy with the aim to embrace responsibility for the company's actions and encourage a positive impact through its activities on the society, environment, consumers, employees, communities, stakeholders and all other members of the public sphere.
- CSR is titles to aid an organisation's mission as well as a guide to what the company stands for and will uphold to its consumers