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Review Article

Corporate Governance

Anjali Gokhru*

K. S. School of Business Management, Gujarat University, Ahmedabad (Guj.)380015

Corporate Governance is the process whereby people in power make decisions that create, destroy or maintain social system, structure and process. The concept of Corporate Government primarily hinges on complete transparency, integrity and accountability of the management. In the recent practice the foreign investors, collaborators and buyers have been demanding more transparency in respect of functioning of Indian Corporate. A good Corporate Government besides protecting the interest of share holders and all other stake holders contributes to the efficiency of a business enterprise, to the creation of wealth and to the Country's economy. Openness is the basis of public confidence in the corporate system and funds will flow to the centres of economic activity that inspires trust. Therefore the foundation of any structure of Corporate Governance is disclosure. If we look from the public and private perspectives then it provides a framework for Corporate Governance that reflects interplay between internal and external forces that together govern the behaviour and performance of the firms. The Regulators are external pressure points for good Corporate Governance. There seems to be a feeling that more compliance with regulatory pressure is a minimal requirement of good Corporate Governance and what are required is internal pressure, peer pressure and market pressures to reach standards for higher than minimal prescribed by regulatory agencies. The road to efficiency lies in minimising regulatory prescriptions and maximising voluntary codes to ensure excellence in Corporate Governance among financial intermediaries. Simultaneously ethics is of as paramount importance in the Governance of organization. In short Corporate Governance is concerned with value, vision, transparency, ethics and visibility of its performance and practices.

Keywords: Corporate Governance, Board of Directors, Shareholders, Transparency, Ethics.

INTRODUCTION

Corporate Governance is a phenomenon of recent origin in the wake of increasing competition and globalization it incorporates the elements of accountability, control and reporting functions of board of directors and encompasses the relationship among various participants in determining the direction and performance of the corporation.

***Address for Correspondence**
anjaligokhru@gmail.com

Although the idea of corporate governance has received wide attention, there is considerable variation in the conceptual definition, even resulting in inconsistencies in the usage of the term.

In its narrowest sense, the term may describe the formal system of accountability of senior management to the shareholders. At its most expansive, the term is stretched to include the entire network of formal and informal relations involving the corporate sector and their

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consequences for the society in general. Corporate Governance, as generally understood, includes the structure, process, cultures and systems that facilitates successful operation of the organizations.

Governance is the process whereby people in power make decisions that create, destroy or maintain social systems, structures and processes. Corporate Governance is therefore the process whereby people in power direct, monitor and lead corporations, and may thereby create, modify or destroy the structures and systems under which they operate. Corporate governance is both potential agents for change and also guardians of existing ways of working. Therefore it is the significant part of our society.

Concept and Meaning:

Corporate Governance is a process or a set of systems and processes to ensure that a company is managed to suit the best interacts of all, including the organizational and structural matters. Corporate Governance is concerned with the establishing of a system whereby the directors are entrusted with responsibilities and duties in relation to the direction of corporate affairs. Corporate Governance is a voluntary ethical code of business of companies. The concept of Corporate Governance hinges on total transparency, integrity and accountability of the management which includes non-executive directors. Corporate Governance recognises issues like maintaining continuity by succession planning, identifying opportunities, facing challenges and managing changes within the business and allocation of resources towards the right priority.

Corporate Governance consists of two important elements.

1. A long term relationship, which has to deal with checks and balances, incentives of managers and communications between managers and investors.
2. A transactional relationship involving matters relating to disclosure and authority.

In fact a healthy and competitive corporate sector is fundamental for sustained and shared growth of developing and transitional economies, as it withstands economic shocks and delivers benefits to the society at large.

Enhancement of Corporate Governance efficiency through:

1. A good corporate practice, through a good governance system enhances good conviction.
2. Impactful governance reduces perceived risks, consequently reducing cost of capital.

3. Excellence in management skill helps to leverage competitive advantages in financial market.
4. Good governance provides stability and growth to the companies.
5. Stability and long term sustenance of stake-holders relationship can be promoted with the adoption of good corporate practices.
6. Potential stake holders aspire to enter into a relationship with enterprises whose governance credentials are exemplary.

Emerging Challenges:

New information technologies are significantly reshaping the ways the companies interact with investors. These new technologies are changing the environment for corporate information in a way that dramatically accelerates fundamental trends which have been transforming corporate governance and investors relations for over a decade.

The combination of new technologies will provide companies and investors with major new resources. Every public disclosure document filed by public companies will be instantly available.

The number of share holders with timely access to corporate news and data will grow dramatically and anyone with access to the internet can get the same information flow, previously available only to institutional investors. Interactive, user friendly corporate websites can contain well organised up to date investor information. On line press conferences available to everyone can replace the closed investor meetings as the forum for corporate announcements. Communities of interested shareholders, large, institutions along with the growing number of individual shareholders who currently inhabit online news groups and chat rooms will use company websites as their forum to discuss corporate developments both with company's management and with each other. Distance will become increasingly irrelevant as shareholders around the world acquire the same access to corporate headquarters as shareholders across the street.

Each of these developments will increase information liquidity and their combined effect on corporate performance could be enormous. Shareholders empowered by these new resources will soon express individual and collective opinion on growing number of corporate decisions and expect companies to respond.

The standards of excellence in corporate community involvement development by Boston College Centre for Corporate Community relations provide management and operational guidelines, principles,

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policies, practices and measures to help companies develop and manage world class corporate community involvement.

Companies that deliver the most compelling messages to their shareholders and the investment community will clearly have a competitive advantage in the information driven corporate world. The momentum driving these developments will continue to increase as each new technology becomes more widely available. It is impossible to predict precisely when their cumulative impact will make this brave new corporate world a reality. However it is imperative for corporate sector in India to keep a vigil on new technological development and adapt to them at the earliest.

There are some pre-requisites for good corporate governance:

1. A proper system consisting of clearly defined and adequate structure of roles, authority and responsibility.
2. Vision, principles and norms which indicate development path, normative considerations and guidelines and norms for performance.
3. A proper system for guiding, monitoring, reporting and control.

Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and it equally require accountability 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.

Corporate Governance and Ethics:

Corporate Governance is in essence determination of how companies are governed, how executive actions are supervised and how a company is accountable to regulations imposed on it by law or other commitments to shareholders. In fact ethics can be taken as any system by which companies are directed and controlled.

Corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stake holders, and spells out the rules and procedures for making decisions on corporate affairs. By doing so it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

Transparency facilitates enhancement of shareholder value and disclosure norms which have hence assumed greater significance. Consequently, corporate governance has long standing implications on attracting investment, enhancing shareholder value and in protecting interests of the stakeholders.

The Importance of Ethics:

It is imperative to view why ethics is of paramount importance in the governance of organisations:

- Although short term profit from ethical conduct may not have outstanding results, unethical conduct can prove to have disastrous repercussions. Thus, a sound ethical base can prove to be an advantage in the long run.
- Even if there are financial disadvantages involved in fulfilling obligations over and above those required by law, the same may be compensated and balanced out by non-financial advantages like that of the good repute of the organization.
- A company can possess a competitive edge due to its dedication towards social responsibilities and the market advantage that it consequently gains cannot be easily thwarted. The positive image that it acquires is at once an endorsement of its sound administration.
- Human resources stand to be influenced by the ethical base of an organization .employees would be motivated to strive to maintain the ethical framework in which they work.
- With most companies attempting to outdo each other in all spheres it will soon be the turn of business ethics to serve as comprehensive competitive advantage. Corporations that act visibly ethical way will be preferred by informed consumers more and more.
- The true safeguard for good corporate governance is the application of independent judgement by experienced and qualified individuals- executive and non-executive Directors, shareholders and auditors.
- Education and training in the aspects of judgement and business ethics are also required.
- Business ethics covers wider matters of conflicts of interest, the stakeholder principle and culture and values in a business corporation.

Environmental Changes:

Removal of trade barriers and the need to enhance economies, has made business a transitional, rather than a national activity. Competition in business is found in related and unrelated sectors.

The pace and nature of changes due to technological innovations are disrupting product life-cycles and traditional investment criteria, increasing choices and lowering prices, changing customers perceptions of values, quality and service. The focus of most national governance includes business agendas, leading to their greater participation in business activities, formation of economic trade zones, economic welfare etc.

Corporate code of conduct:

A corporate code of conduct must be workable and it should contain an inherent provision for accountability. Work with codes of conduct only makes sense if the managerssoncerned are accountable for its objectives.

The code should also contain provisions which would enable the concerns of employees to be addressed.

Any violations of the code of conduct must be examined and penalised if found necessary. The message should be clear and leave employees in no doubt. The violation of the code leads to penalties, including dismissal and that irrespective of whether the violation had positive or detrimental consequences for the corporation.

CONCLUSION

Past experience has highlighted that the minimal standards that had been set by the Companies Act have not served the purpose. The disclosure norms set out by SEBI alongside the mandatory recommendations of the Birla Committee Report have now set out a distinctive path for ensuring that companies adhere to such standards as have been identified to provide for good corporate governance.

It must be realised that, corporate governance while affirming value addition for the shareholders as one of the foremost objectives, should not fail to encompass other concerns such as the satisfaction it provides to its customer, the working environment it has created for its employees, the responsibility it has towards environmental concerns and its obligations towards society. In its emerging role as dynamic concept, it seems rather apparent that the best practices can only be codified rather than be objectified. However it must be realised that such edicts do not become the common standard overnight. It would through association with the best corporate. The prevalent concepts pertaining to ethical values in society would also play an active role in influencing an individual along with the existing machinery which ensures that ethical practices are followed. To that extent the organisation can put such machinery in place that would ensure adaptation of best practices and also play an active part as a role model, to influence individual action.

The challenges and opportunities facing Indian corporate are becoming more demanding and varied. To survive and grow in this rapidly changing environment, corporate sector needs to be more pro active, responsive, efficient and productive. Those who fail to meet these challenges, ultimately, fail to survive. The corporate sector needs to be innovative in developing new products and market invests in their employees to equip them with the requisite skills and create commercial excellence. Achieving excellence, in today's changing environment requires adherence to good governance practices, including accountability, transparency, quality of information community involvement, concern for environment and human resource development.

In totality corporate governance is concerned with the values, vision and visibility. It is about the value orientation of the organization, ethical norms for its performance, the direction of development and social accomplishment of the organization and the visibility of its performance and practices. Corporate management is concerned with the efficiency of the resource use, value addition and wealth creation within broad parameters of the corporate philosophy established by corporate governance.

Last but not the least: "adequate implementation of existing and evolving system can provide for good corporate governance"

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