Corporate Governance – Percepts and Practices

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Good corporate governance is about maximizing shareholders value on a sustainable basis while ensuring fairness to all the stakeholders: customers, vendors-partners, investors, employees, government and society.

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Abstract
Corporate Governance is the professional as well as ethical way of running the business. It demands the following of rules and standards in spirit. Various theories evolved in the area of corporate governance focusing on micro stakeholders as well as the economy in macro level. Unlike foreign companies, Indian companies are running in a system where internal and external factors plays a major in in the decision making process. The challenge is to follow corporate governance in this challenging environment. In addition to controlling frauds and malpractices, corporate governance can give competitive advantage to the company in terms of acceptability by different parties: customers, investors, legal authorities, suppliers and distributors and economy as large. This can be capitalized in positing the company as an ethical brand in the mind of various stakeholders.

Introduction
Corporate governance is a not a new word to the management discipline. But it gained more importance in the early 2000. The economic turbulence and mismanagement gave birth to corporate governance as a discipline as well as practice. Corporate governance is the acceptance by the management of the inalienable rights of the shareholders as the true owners of the corporation. It is about the commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company.

The first and most important guideline to be followed in corporate governance is to preserve the right of the shareholder. The shareholder is the true owner of any corporate. His money and rights has to be protected by the Board of Directors. All shareholders have to be treated equitably based on the holding volume of shares. A corporate being a social entity depends and take resources from society and various stake holders. A proper corporate governance framework ensures that there is transparency in business operations, all stake holders are taken care and proper code of conduct is followed by Board of Directors in discharging their duties.

Literature Review:
Steven Slalerio, Joan Condid, Schmidt Regan, Accounting Perspectives, Spring2013, Vol. 12 Issue 1, p23-51. 29p.- This study documents the rate of compliance by Canadian public firms with corporate governance recommendations imposed by the Canadian Securities Administrators. Canada uses a 'comply or explain' governance structure in which harmonized provincial regulation establishes mandatory disclosure of governance practices. Firms can be compliant with these requirements either by voluntarily adopting the recommended best practices (i.e., adopt) or by explaining the alternative practices implemented to achieve the same governance principle (i.e., explain). Firms that fail to comply (i.e., neither adopt nor explain) are in violation of Canadian securities regulation with respect to governance. Using a hand-collected sample of 742 Canadian public companies and 16 governance recommendations, our results show that an average of 82 percent

of firms complied by adopting the best practice and an additional 4 percent complied by explanation. The study also shows that 39 percent of Canadian publicly traded firms were completely compliant with all 16 recommendations examined in this study, either by adoption or explanation. To provide a broader context for these results, we compare rates of compliance in Canada to rates in Australia, a country broadly similar to Canada with comparable governance recommendations. The Australian Securities Exchange supplied data sample of 1334 Australian companies reports a complete compliance rate of 74 percent compared to Canada's 39 percent complete compliance rate. Our analysis shows that compliance by adoption of best practice is more common in Canada, whereas compliance by explanation is more common in Australia. In our analysis of compliance with individual recommendations, we find that half of the recommendations are more likely to be complied with in Australia, and the other half are more likely to be complied with in Canada

Marson Chris & Simmons John, Journal of Business Ethics, Jan2014, Vol. 119 Issue 1, p77-86 :- Current research on corporate social responsibility (CSR) illustrates the growing sense of discord surrounding the 'business of doing good'. Central to these concerns is that CSR risks becoming an over-simplified and peripheral part of corporate strategy. Rather than transforming the dominantcorporate discourse, it is argued that CSR and related concepts are limited to 'emancipatory rhetoric...defined by narrow business interests and serve to curtail interests of external stakeholders.' The paper addresses gaps in the literature and challenges current thinking on corporate governance and CSR by offering a new conceptual framework that responds to the concerns of researchers and practitioners. The limited focus of existing analyses is extended by a holistic approach to corporate governance and social responsibility that integrates company, shareholder and wider stakeholder concerns. A defensive stance is avoided by delineating key stages of the governance process and aligning profit centered and social responsibility concerns to produce a business-based rationale for minimizing risk and mainstreaming

Issues in Corporate Governance:

A few issues which a corporate has to encounter in developing a corporate governance framework are mentioned below:

- Differentiating the Roles of Board and Management: It refers to distinguishing the roles of the Board from the Management. The role of the Board pertains to controlling the main business activities, whereas, the management is supposed to take care of day-to-day operations.
- Deciding the Board Composition: The Independent Directors have to be purely independent and must be in a position to give objective feedback to the Board and Management.
- Separating the role of CEO and Chairman: Corporate Governance advocates for separation in management and ownership. In counties like India and US, there are many cases where the role of CEO and Chairman are combined, which create a power centre which is unquestionable.
- Re-electing the Board of Directors: Corporate Governance advocates for a committee which is assigned the talk of Board election. Since it’s a time consuming process the committee has to work for a fair election and make sure that all the shareholders are given a platform to express their selection rights.
- Social Responsibility of the Organization: Investors interests and interest of society’s interest may sometimes move in the opposite direction. The focus is to get a balanced solution which can protect the interest of all stakeholders including society.

Evolution of Corporate Governance:

In today’s competitive scenario, the organizations no longer focus on maximizing the benefit to shareholders; rather they focus on optimizing the benefits to all stakeholders of the business. A lot of committees were constituted worldwide for evolving the corporate governance practice. Cadbury Committee, which is constituted in UK in the year 1992 is the premier in the segment. Cadbury

Committee advocated *Internal Financial Control* as the basis of corporate governance as majority of the breach in corporate governance happens in the area of finance. It is followed by Greenbury Committee in the year 1995 which advocated for proper *Disclosure* and Hampel Committee in 1998 which advocated a *Combined Code*. After that Sarbanes Oxley(SOX) Act was passed in USA in 2002, which is now considered as the bible for corporate governance. SOX Acts strongly advocates for *Auditors Independence* in ensuring corporate governance practice. Organization for Economic Cooperation and Development (OECD) which works for ensuring long term value to shareholders also gave lot of guidelines to the corporate word in ensuring corporate governance. In Indian contest a few committees like Kumara Mangalam Birla Committee in the year 1999, Naresh Chandra Committee in the year 2002, Narayana Moorthy Committee in the year 2003 and Dr. J JIrani Committee on Company Law in the year 2005 gave lot of guidelines in the professional management of the company. Securities and Exchange Board of India (SEBI), which is entrusted with the task of investor protection indirectly, ensure the practice of corporate governance in India.

Theories in Corporate Governance:

The rights and duties of an organization are subject to certain codes and regulations laid down by various corporate governance committees. These committees provides basement for corporate governance theories. There are four basic corporate governance theories: agency theory, stewardship theory, stakeholder theory and sociological theory.

- Agency Theory: Agency theory is built on the presumption that the interests of managers often clash or are divergent from that of the shareholders. The agency problem can be solved by providing incentives, personal recognition, monetary and non-monetary rewards to managers to motivate them to achieve wealth maximization.
- Stewardship Theory: The stewardship theory nullifies the possible conflicts between the managers and shareholders that have been presumed by agency theory. The stewardship theory supports the view that the managers are considerate about their personal reputation and value their integrity. Consequently, managers with high ethical and moral values are being offered higher remuneration in their respective industries when compared to others.
- Stakeholder Theory: The stakeholder theory supports the view that an organization should maximize stakeholder's benefit and follow an ethical code of conduct. One key issue here is identifying genuine stakeholder and determining the shareholder benefit. The stakeholder theory is accused of creating chaos in the organizations as it disorients the managers from the goal of profit maximization.
- Sociological Theory: The sociological theory focuses on the distribution of wealth and power in the society. The theory also supports the view that the organization should conduct auditing and take control measures to promote equity and social progress.

Models in Corporate Governance

An organization always follows a hierarchy where authority flows upwards and accountability is delegated downwards. The practice of corporate governance can be explained with the help of various models:

- The Anglo – American Model: This model provides equal ownership to both institutional and individual shareholders, making separation in ownership and management, making disclosure normsconcise and comprehensive, penalizing insider trading and protecting interest of small share holders.
- The German Model: The German model comprises of two boards, namely, supervisory board and management board. This model adopts a societal orientation and states that the employees of an organization have a voting right to elect the Board of Directors.
- The Japanese Model: The Japanese model of corporate governance is called Business Network Model. It considers financial institutions as an important part of corporate governance. The

Japanese model includes a President who is assigned with the function of consulting both supervisory and advisory boards. The model outlines the importance of lending banks.

- The Indian Model: Indian model is a mix of German model, Japanese Model and the outcome of various committee reports. It is influenced by the corporate governance practices followed worldwide. That is the reason why the external and internal environment factors play a major role in framing corporate governance strategies in Indian firms.

Corporate Governance and Key Stakeholders

The key stakeholders like Independent Directors, Auditors, and Government Machinery etc play an important role in the implementation of corporate governance practice. One of the key shareholders in corporate governance practice is Independent Directors. The sole purpose of Independent Director is to monitor the functioning of the management and give advice as and when required. But unfortunately there are many examples where this system failed as such. The same happened to Auditors, Regulative Bodies, Tax Authorities, and Government etc. Law has given sufficient rights to all stakeholders. But the question is to what extent each stakeholder is exercising his right. If we take the failed example of corporate governance we can see a direct correlation between the failed corporate governance and unexercised rights of various stakeholders including legal authorities.

Future of Corporate Governance

Corporate governance is not just protecting the interest of shareholders. It is an ethical code of conducting a business which protects the interest of all stakeholders. It's a value system a corporate has to follow. The main factor which is viewed positively in improvement of corporate governance practice is the implementation of Accounting Standards. A strict adherence to accounting standards supported by strong legal system, stock exchanges, vigilant regulators and investors and professional management can help in the improvement of corporate governance practices.

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