Contents:

Introduction:

Corporate Governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, and taking into account the interest of other stakeholders.

"Good governance is not simply about corporate excellence. It is the key to economic and social transformation. The corporation of today are no longer sheer economic entities. These are the engines of economic and social transformation." – Dr. Madhav Mehra, President of World Council For Corporate Governance

Why Corporate Governance?:

 Better access to external finance Lower costs of capital – interest rates on loans Improved company performance – sustainability Higher firm valuation and share performance Reduced risk of corporate crisis and scandals

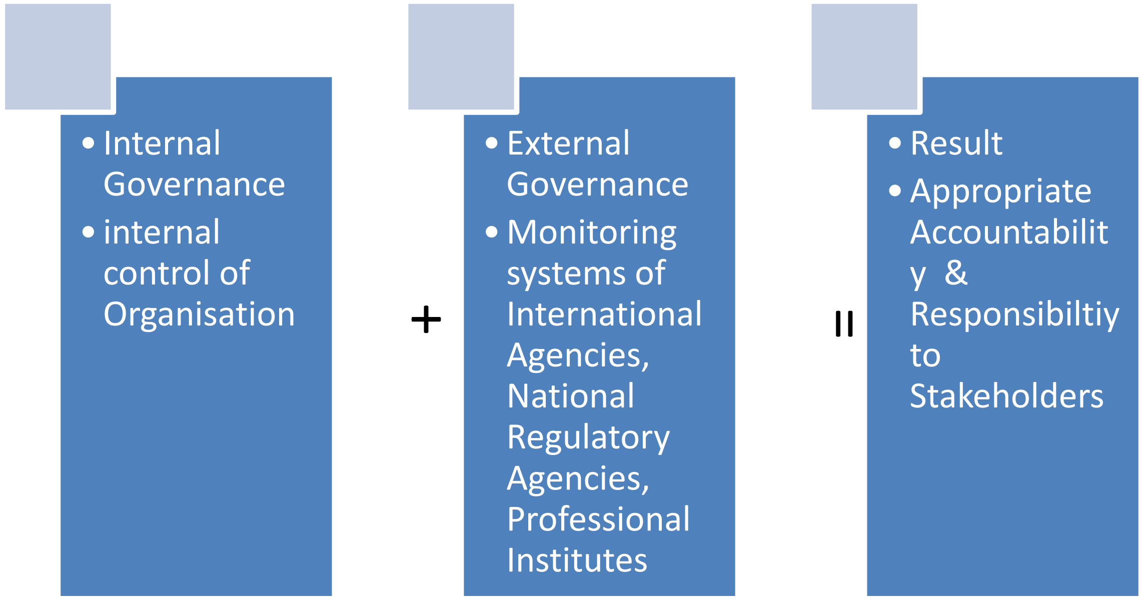
Importance of good governance:

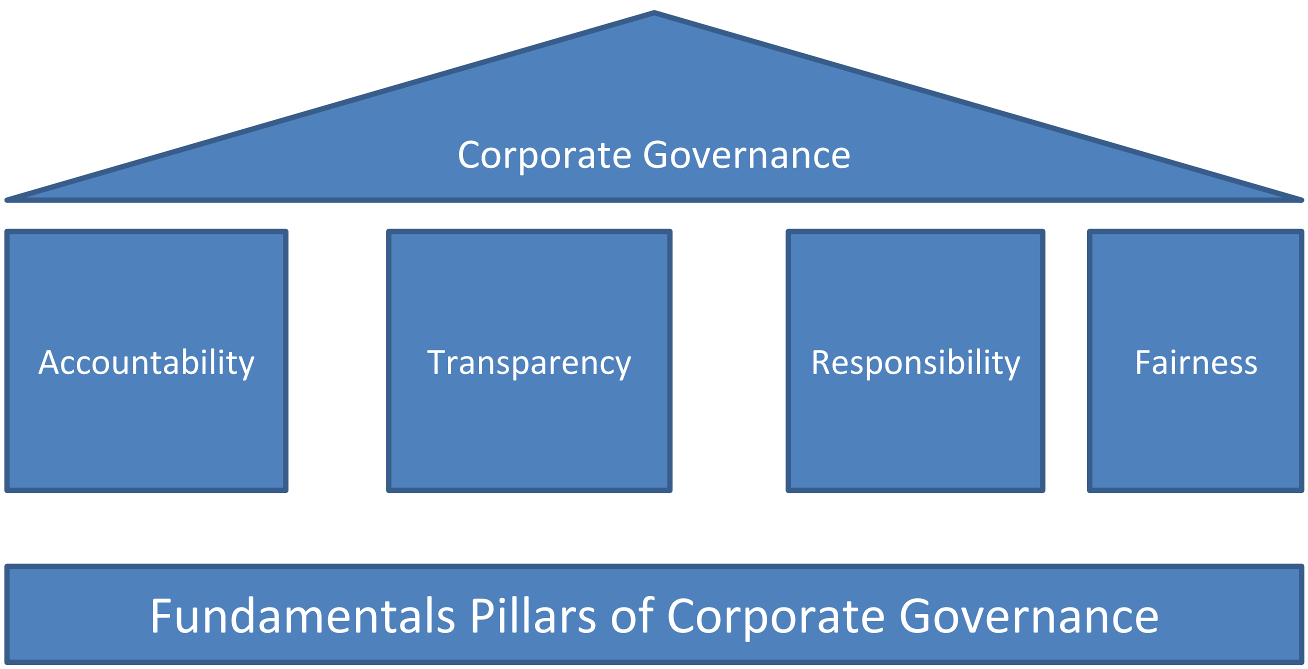
If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for tax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country – regardless of how steadfast a particular company's practices may be – suffer the consequences.

Corporate Governance

 Relationships among various participants in determining the direction and performance of a corporation.
 Effective management of relationships among – Shareholders – Managers – Board of directors – employees – Customers – Creditors – Suppliers – community

Corporate Governance of an Organization:





Source: Malaysian Institute 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 values
Fairness Ensuring the protection of shareholders' rights and the enforceability of contracts with service/resource providers

Principles of Corporate Governance:

- Sustainable development of all stake holders- to ensure growth of all individuals associated with or effected by the enterprise on sustainable basis.
- Effective management and distribution of wealth – to ensue that enterprise creates maximum wealth and judiciously uses the wealth so created for providing maximum benefits to all stake holders and enhancing its wealth creation capabilities to maintain sustainability.
- Discharge of social responsibility- to ensure that enterprise is acceptable to the society in which it is functioning.
- Application of best management practices- to ensure excellence in functioning of enterprise and optimum creation of wealth on sustainable basis.
- Compliance of law in letter & spirit- to ensure value enhancement for all stakeholders guaranteed by the law for maintaining socio-economic balance.

Corporate Governance in India:

- The Indian corporate scenario was more or less stagnant till the early 90s.
- The position and goals of the Indian corporate sector has changed a lot after the liberalisation of 90s.
- India's economic reform programme made a steady progress in 1994.
- India with its 20 million shareholders, is one of the largest emerging markets in terms of the market capitalization.

International Initiatives on Corporate Governance:

- International Corporate Governance Network founded by institutional investors in Europe and North America
- Global Corporate Governance Forum founded by OECD and World Bank
- Commonwealth Association for Corporate Governance founded by Commonwealth Heads of Government

International Scenario:

Year	Name of Committee/Body	Areas/Aspects Covered
1992	Sir Adrian Cadbury Committee, UK	Financial Aspects of Corporate Governance
1994	Mervyn E . King's Committee , South Africa	Corporate Governance
1995	Greenbury Committee , UK	Directors' Remuneration
1998	Hampel Committee, UK	Combine Code of Best Practices
1999	Blue Ribbon Committee, US	Improving the Effectiveness of Corporate Audit Committees
1999	OECD	Principles of Corporate Governance
1999	CACG	Principles for Corporate Governance in Commonwealth
2003	Derek Higgs Committee, UK	Review of role of effectiveness of Non-executive Directors
2003	ASX Corporate Governance Council, Australia	Principles of Good Corporate Governance and Best Practice Recommendations

The Organisation for Economic Cooperation and Development (OECD)

The Organisation for Economic Cooperation and Development started operations in 1961to convene governments of countries focused on democracy and the market economy to support sustainable economic growth, boost employment, raise living standards, maintain financial stability, assist in enhancing economic development, boost growth in world trade, share expertise and exchange views.

OECD Principles of Corporate Governance

1999 - Endorsement of OECD Principles of Corporate Governance by OECD Ministers as an international benchmark for policy makers, investors, corporations and other stakeholders worldwide.
2004 - Revised Principles of Corporate Governance.
2006 - OECD Steering Group on Corporate Governance issued the Methodology for

Assessing Implementation of OECD Principles of Corporate Governance.

Reports on the Observance of Standards and Codes:

ROSCs summarize the extent to which countries observe certain internationally recognized standards and codes. The IMF has recognized 12 areas and associated standards as useful for the operational work of the Fund and the World Bank. These comprise accounting; auditing; anti-money laundering and countering the financing of terrorism; banking supervision; corporate governance; data dissemination; fiscal transparency; insolvency and creditor rights; insurance supervision; monetary and financial policy transparency; payments systems; and securities regulation.

CORPORATE GOVERNANCE	CORPORATE MANAGEMENT
External Focus	Internal Focus
Governance assumes an open system	Management assumes a closed system
Strategy-orientated	Task-orientated
Concerned with where the company is going	Concerned with getting the company there

"Corporate governance is… 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 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 is to achieve their corporate aims and to attract investment. The incentive for states is to strengthen their economics and discourage fraud and mismanagement."

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

Conclusion:

- As Indian companies compete globally for access to capital markets; many are finding that the ability to benchmark against world-class organizations is essential.
- For a long time, India was a managed, protected economy with the corporate sector operating in an insular fashion.
- But as restrictions have eased, Indian corporations are emerging on the world stage and discovering that the old ways of doing business are no longer sufficient in such a fast-paced global environment.