Corporate Governance in 21st Century

Dr. Ajay N. Soni
Associate Professor & HOD
M. M. Gandhi Arts and Commerce College, Kalol - 389330, Gujarat.

Received Dec. 05, 2017 Accepted Jan. 12, 2018

ABSTRACT *Corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders.*

Key words: *corporate governance.*

Corporate governance is concerned with ways of bringing the interests of investors and manager into line and ensuring that firms are run for the benefit of investors'. Corporate governance includes 'the structures, processes, cultures and systems that engender the successful operation of organizations' In simple sense Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure. Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked. Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing.

Separating management from shareholding

Shareholder primacy is embodied in the finance view of corporate governance, which is a special instance of the principal-agent framework in economic theory. In terms of the finance view, the primary justification for the existence of the corporation is to maximize shareholder wealth. Since ownership and control are separate (for purposes of liquidity, risk sharing and specialization), the central corporate governance issue from this perspective is aligning the objectives of management with the objective of shareholder wealth maximization. In this emerging age of rapid technological advancement and growing complexities around business corporations, the custodial model of governance warrants a code of minimum qualification

/experience for any individual being appointed managing director. The legacy succession of young family members from the promoter group carries several negative repercussions. It would be advisable to begin by at least sensitizing promoters to the need to separate management from shareholding. Defining minimum criterion for being eligible for top managerial positions for companies with a certain size and scale of market capitalization is also important.

Principals

1. **Rights and equitable treatment of shareholders**: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.
2. **Interests of other stakeholders**: Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.
3. **Role and responsibilities of the board**: The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.
4. **Integrity and ethical behavior**: Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.
5. **Disclosure and transparency**: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Desirable Disclosure

"Listed companies should give data on high and low monthly averages of share prices in a major stock exchange where the company is listed; greater detail on business segments, up to 10% of turnover, giving share in sales revenue, review of operations, analysis of markets and future prospects." Major Indian stock exchanges should gradually insist upon a corporate governance compliance certificate, signed by the CEO and the CFO." If any company goes to more than one credit rating agency, then it must divulge in the prospectus and issue document the rating of all the agencies that did such an exercise. These must be given in a tabular format that shows where the
company stands relative to higher and lower ranking."

Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
6. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
7. It helps in brand formation and development.
8. It ensures organization in managed in a manner that fits the best interests of all.

Corporate governance is the system by which companies are directed and controlled. boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors to satisfy themselves that an apropriate Governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, Supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting. Corporate governance essentially lays down the framework for creating long term trust between companies and the external providers of capital, it would be wrong to think that the importance of corporate governance lies solely in better access of finance.

References

1. The Corporate Governance of Iconic Executives, 87 Notre Dame Law Review 351 (2011), available at:http://ssrn.com/abstract=2040922

2. *"OECD Principles of Corporate Governance, 2004". OECD. Retrieved 2013-05-18.*
3. Tricker, Adrian, *Essentials for Board Directors: An A–Z Guide*, Bloomberg Press, New York, 2009, ISBN 978-1-57660-354-3
4. Lee, Janet & Shailer, Greg. The Effect of Board-Related Reforms on Investors Confidence. *Australian Accounting Review*, 18(45) 2008: 123-134.
5. Goergen, Marc, International Corporate Governance, (Prentice Hall 2012) ISBN 978-0-273-75125-0
6. Pay Without Performance – the Unfulfilled Promise of Executive Compensation by Lucian Bebchuk and Jesse Fried, Harvard University Press 2004, 15–17
7. *"The Financial Times Lexicon". The Financial Times. Retrieved 2011-07-20.*
8. Cadbury, Adrian, *Report of the Committee on the Financial Aspects of Corporate Governance*, Gee, London, December, 1992, p. 15
9. Daines, Robert, and Michael Klausner, 2008 "corporate law, economic analysis of," *The New Palgrave Dictionary of Economics*, 2nd Edition. Abstract.
10. Shleifer, Andrei, and Robert W. Vishny (1997). "A Survey of Corporate Governance," *Journal of Finance*, 52(2), pp, 737–783.
11. Oliver Hart (1989). "An Economist's Perspective on the Theory of the Firm," *Columbia Law Review*, 89(7), pp. 1757–1774.
12. Valentin Zelenyuk, and Vitaliy Zheka (2006). "Corporate Governance and Firm's Efficiency: The Case of a Transitional Country, Ukraine," *Journal of Productivity Analysis*, 25(1), pp. 143-157, [1]
13. *Sifuna, Anazett Pacy (2012). "Disclose or Abstain: The Prohibition of Insider Trading on Trial". Journal of International Banking Law and Regulation.* ***27*** *(9).*
14. *"Corporate Governance via GRC Glossary". GRC Glossary. Open Compliance and Ethics Group. 21 April 2010. Retrieved 26 March 2017.*
15. *"Governance via GRC Glossary". GRC Glossary. Open Compliance and Ethics Group. 21 April 2010. Retrieved 26 March 2017.*