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Corporate Governance and Management

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***ABSTRACT* - Corporate Governance is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. Good Corporate Governance helps in achieving the objective of the organization without difficulty. This paper discusses what good corporate governance is and who is responsible to implement it. It also throws light on the importance and benefits of good Corporate Governance.**
Keywords : Corporate Governance, Management, Shareholders, Creditors.

1. INTRODUCTION

Corporate Governance is not new to India. Report of SEBI committee (India) defines corporate governance as the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders.Corporate Governance talks about the significance of adhering to the rules and regulations, independence, faithfulness, transparency and so on. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company. Corporate Governance is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs.

Corporate Governance is a broader concept. It helps in adopting the Code of Best Business Practices like fair, efficient and transparent administration. It strives to meet certain well defined, written objectives. Corporate governance must go well beyond law. The quantity, quality and frequency of financial and managerial disclosure, the degree and extent to which the Board of Director (BOD) exercise their trustee responsibilities (largely an ethical commitment), and the commitment to run a transparent organization- these should be constantly evolved due to interplay of many factors and the roles played by the more progressive/responsible elements within the corporate sector.

2. PARTIES TO CORPORATE GOVERNANCE

Parties involved in corporate governance include the regulatory body (e.g. the Chief Executive Officer, the Board of Directors, Management, Shareholdersand Auditors). Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large. All parties to corporate governance have an interest, whether direct or indirect, in the effective performance of the organization. The CG specifies the roles of the different participants in the organisation.

3. IMPACT OF CORPORATE GOVERNANCE

The positive effect of corporate governance on different stakeholders ultimately is a strengthened economy, and hence good corporate governance is a tool for socio-economic development.

4. PRINCIPLES OF CORPORATE GOVERNANCE

Honesty, trust, integrity, openness, performance orientation, responsibility, accountability, mutual respect and commitment to the organisation are the key elements of good corporate governance.

A. Commonly accepted principles of corporate governance include:

- **Rights and equitable treatment of shareholders**:
  - Organizations should respect the rights of shareholders.
  - They should help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.
- **Interests of other stakeholders**:
  - Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.
- **Role and responsibilities of the board**:
  - The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance.
  - It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties.
- **Integrity and ethical behaviour**:
  - Ethical and responsible decision making is not only important for public relations, but it is also

a necessary element in risk management and avoiding lawsuits.

- Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.

- **Disclosure and transparency**:
  - Organizations should clarify and make publicly known the roles and responsibilities ofboard and management to provide shareholders 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.

5. CORPORATE GOVERNANCE AND MANAGEMENT

Corporate governance provides a mechanism through which the objectives of the organisation are set and achieved. Corporate Governance enforced by legislation would not serve the purpose. Hence, the members should follow voluntary ethical code to operate the company effectively and efficiently and they can be transparent enough to protect the interests of the Stake holders.

As the owners of the company, shareholders should be kept informed about the various issues of the company. Looking at the financial perspective, the primary objective of any organisation is to maximise the wealth of the shareholders. They should be considered during important strategic decisions. Good Corporate Governors views shareholders as not suppliers of fund, but ideas and direction, a monitoring agency and therefore they empower them that they participate and perform in company meetings. Researchers have found that "firms with strongershareholder rights had higher firm value, higher profits, higher sales growth, lower capital expenditures, and fewer corporate acquisitions." In turn this enhances wealth through increased accountability to investors by creating more democratic forms of corporate governance and corporate monitoring.

6. CORPORATE GOVERNANCE AND WEALTH MAXIMISATION

The concerns about the corporate governance has stemmed from the corporate scandals as well as opening up to the forces of competition and globalization. The years since liberalization have witnessed wide-ranging changes in both laws and regulations driving corporate governance as well as general consciousness about it. Perhaps the single most important development in the field of corporate governance and investor protection in India has been the establishment of the Securities and Exchange Board of India (SEBI) in 1992 and its gradual empowerment since then. SEBI formulated the minimum ground rules to regulate and monitor the stock trading. The SEBI committee recommendations created the maximum impact on changing the corporate governance situation in India.

In a way, this helped to protect the interest of the investors and to achieve the objective of any public limited organization i.e. to maximize the wealth of the shareholders.It means that a firm should strive hard to maximize the return of the shareholders, as measured by the sum of capital gains and dividends for a given level of risk. Alternatively, the firm should minimize the level of risk to shareholders for a given rate of return. As shareholders are the owners of the company, maximizing their profits become essential.In short we can conclude that the wealth maximization objective of any public limited organization can be achieved if there exists good corporate governance.

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