CORPORATE GOVERNANCE: ESSENTIALITY AND PERSPECTIVES

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ABSTRACT

The large extent of decision making process, by Board of Directors in Industrial Organization and Management has been the current scenario, resulting in mismanagement leading to unexpected results in any organization. It is during midst of these scenarios many governments throughout the world has introduced and trying to execute and exercise corporate governance. Corporate governance could be defined as set of policies, laws etc to direct, administer and control the organization to establish strong relations among the stakeholders, hold a transparent accountability and finally result in strong socio-economic development. Corporate governance enables to curb the menaces of high-handedness and dictatorial trends to bring healthy and systematic working environment. Corporate governance aims to bring full worth to their investments through several strategic initiatives, varied policies and to finally set up a systematic mechanism to make investors more conscious and enable them to be more active, dynamic and play effective role.

INTRODUCTION

The plethora of research in the domain of corporate governance in the recent times, explores marginally on "ownership effects" based on the experiences of North America and United Kingdom. There has been considerably less research regarding the patterns and processes exercised in Indian scenario of corporate governance. In the light of the growing importance of India in the world economy as a source of intellectual capital and outsourcing possibilities, there is an urgent need to understand the governance structures in the corporate India.

The ownership forms of India are assorted in nature, mostly influenced by diverse and strong cultural values are complex to understand than that of other western countries. The strong cultural beliefs surprisingly form the backdrop of business strategies in the country and these influences have resulted in a complex blend of ownership forms that include family-, government-, professional-, and foreign-owned firms. The existence of diverse ownership forms raises interesting challenges in the context of Corporate Governance in Indian scenario.

Corporate governance is still is the refreshing agenda for corporate companies across the globe. The increasing interests towards exercising corporate governance has many reasons such as collapse of IT market, flaws exposed during the economically toughest times, result of slow growth and the lack of profit / margin of the profit for most of companies.

CAPITALISTIC DEMOCRACY

Corporate governance refers to the way the corporate companies are governed, specifically to direct, administer, and control, and develop the structure of governance. Governance comprises of national and international laws, corporate-specific practices, guide not only how a corporate company is run, but also towards a goal it has to be directed. Corporate governance members include employees, clients, shareholders, management of the company, and the Board of Directors. The list may also include regulatory personnel employed by the government or a trade organization, suppliers, partners, and customers of a corporation and also the voting population.

The existence of various stakeholders also concerned with a corporate goals and results, any organization needs to be necessarily streamlined, rigidly structured, and made transparent to its stakeholders. Corporate governance mechanism facilitates to monitor the frequent outcomes and sets up consistency in achieving the goals, and motivate the corporation towards the realization of its goals.

The primary function of corporate governance, though, is to encourage the individuals to align their ideals, attitudes and behaviors with the corporate's goals and objectives. When all the fish swim in the same direction, the net is much easier to untangle.

The Corporate governance functioning of many companies has come under harsh scrutiny lately with the collapse of supposedly rock-solid companies like Enron. The new and upcoming legislation recommends corporations to carefully plan and maintain their systems of corporate governance.

MAINTAINING ACCOUNTABILITY

Maintaining transparent accountability is one of the key promotions of corporate governance. Some of the new methods include promoting single-person responsibility, more open auditing, and a clear division between the roles of CEO and Chairman of the Board. To achieve the desired level of accountability, corporation should be having systematic rules, relationships, systems and processes. The clarity, un-biased attitude, and fair system with a continuous follow through in well planned and goal oriented direction would result in formation of ideal organization.

The well defined systems, processes have to be complemented by good relationships in the organization. The relationships would not only between owners, board of directors, and employees, but grow outward to embrace regulatory agencies and the community at large. The well-defined relationships within the organization can easily govern its communications both internally and externally. The two-way communication – devising methods especially for those involved peripherally in a corporation, such as the community – the corporation also raises its profile in the community at large, encouraging relatively-uninvolved people to share the corporate goals.

INDIAN PERSPECTIVE VS GENERAL GLOBAL PERSPECTIVE:

Corporate governance has been a frequent debate issue in both United States and Europe over the last decade or two. Corporate governance in India has been an active issue only in the last couple of years. The Satyam business scandal becoming public has raised the discussion about corporate governance in India. The British and American literature in corporate governance has been a big influence in India. One of the mundane tendency found through the research was to "focus on the same issues and proffer the same solutions". For example, the corporate governance code proposed by the Confederation of Indian Industry (Bajaj, 1997) is designed on the lines of the Cadbury Committee (Cadbury, 1992) in the United Kingdom. This paper argues the diverse nature of the issues in Indian corporate governance is a lot different from those in the US or the UK. Consequently, the corporate governance problems in India require "specific and issue based solutions" at this stage of our corporate development.

The corporate governance literature in the US and the UK focuses on the role of the Board as a bridge between the owners and the management (see for example; Cadbury, 1992; Salmon, 1993; Ward, 1997). The ownership and management in corporate environment have become widely separated; the owners are unable to exercise effective control over the management or the Board. The management becomes self-perpetuating and the composition of the Board itself is largely influenced by the likes and dislikes of the Chief Executive Officer (CEO) and leads to a biased method of working process. Corporate governance reforms in the US and UK have focused on making the Board independent of the CEO, which was instrumental in avoiding single man decisions rather improved group decision culture in the organizations. Many companies have set up a Nominations Committee of the Board to enable the Board to recruit independent and talented members. There is now increased recognition of the role that the Board could play in providing a strategic vision to the company. The Compensation Committee of the Board has been strengthened to exercise greater control over CEO compensation following widespread complaints that top management pay is disproportionate to performance. There is also a great deal of discussion in the literature on the role of the Board in firing non performing management and in managing the CEO succession. Perhaps the most powerful and well-established of the Board committees is the Audit Committee. Apart from acting as a deterrent against financial improprieties and frauds, the Audit Committee also enables the Board to keep a pulse on the financial health of the company.

Improving the performance of the Board has become one of the major concerns in the Indian scenario. One of the findings of the paper focuses on the reality in India as Board is not really central to the corporate governance malaise. The central problem in India is the conflict between the dominant shareholders and the minority shareholders rather than a conflict between management and owners as in the US and the UK.

The Board cannot even in theory resolve this conflict. One can in principle visualize an effective Board which can restrain the management. At least in theory, management exercises only such powers as are delegated to it by the Board. But, how can one, even in theory, envisage a Board that can discipline the dominant shareholders from whom the Board derives all its powers? Some of the most glaring abuses of corporate governance in India have been defended on the principle of "shareholder democracy" since they have been sanctioned by resolutions of the general body of shareholders. The Board is indeed powerless to prevent such abuses. It is indeed self-evident that the remedies against these abuses can lie only outside the company itself.

It is useful at this point to take a closer look at corporate governance abuses by dominant shareholders in India. The problem of the dominant shareholder arises in three large categories of Indian companies. First are the public sector units (PSUs) where the government is the dominant (in fact, majority) shareholder and the general public holds a minority stake (often as little as 20%). Second are the multinational companies (MNCs) where the foreign parent is the dominant (in most cases, majority) shareholder. Third are the Indian business groups where the promoters (together with their friends and relatives) are the dominant shareholders with large minority stakes, government owned financial institutions hold a comparable stake, and the balance is held by the general public. The governance problems posed by the dominant shareholders in these three categories of companies are slightly different.

CONCLUSION

The real corporate governance system can be built only on the foundations of legal framework. Although legal environment is a key factor in formulating the corporate environment, its formulation must be the outcome of the local-national analysis of the needs and characteristics. Imposing and adopting, in India, the legal and regulating initiatives made in USA & UK, does not solve any major problems or contribute to better corporate governance quality. Using the same remedy for a different illness, it may be cost effective or even appealing to some, but it does not address the real problems. On the contrary, it may divert attention from the problems and contribute to arbitrariness of major shareholders. Regulating and legislative authorities must rethink their strategy in formulating the corporate environment. As long as the fundamental differences of the corporate governance systems differ, legal and regulating isomorphism may be the cause of problems and not a solution. India should develop its own corporate governance frameworks that address the local issues and are consistent with their ownership structure, business culture and ethics.

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