



TRENDS OF CORPORATE GOVERNANCE

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ABSTRACT

Corporate Governance has come into force in the last few years. The term Governance has been implemented in each country and in corporate is shaped by various factors like political, economic and social history, legal framework, values and ethics of the promoters, managerial practices etc. The business ethics, Banks, Corporations, financial institutions around the world are increasingly relying on corporate governance as means to achieve highest standards to raise the confidence level of the people. The term corporate governance has now become a common factor and its usage is not very consistent as the corporate have been utilizing the concept in its own way based on their values and ethics. Good Corporate Governance system would help the corporate to develop a credible opinion on its management in terms of quality and it would promote the development of strong financial systems whether they are largely bank based or market based which in turn might have a positive effect on economic growth and poverty reduction.

Good Corporate Governance is not just good management. It is much broader than this, and includes fair, efficient and transparent administration designed to meet certain well defined objectives in an organization. In recent years the word governance has become a very fashionable term and is being used in a variety of ways and covers a large number of organizations both in the public and private domain. This is not a new concept; it is as old as human civilization on this earth. Generally the term governance refers to the process of decision making and the process by which decisions are implemented or not implemented. As everybody knows that without good governance, there can be no sustainable development in a country. The process is often a gradual one involving changes to long standing practices, cultural habits and social and even religious norms.

The various Scams and corporate fraud such as, CWG Scam, and the 2G Scam and many other cases are the examples of poor governance. Many prominent persons like Wipro's Asim Premji and HDFC Banks chairman Deepak Parikh have shown concern over poor governance. Good corporate governance is not possible without fighting from corruption and mismanagement within the internal and external environment of the corporate structure

Keywords: Good Corporate Governance, transparent administration

Introduction

As we know that corporate Governance came into existence in the last few years. The Indian corporate scenario was more or less stagnant till the early 90's. The position and scenario of the Indian corporate sector has changed a lot after the liberalization of 90's. In the year 1994 India's economic reform program made a steady progress. India with its 20 million shareholders is one of the largest emerging markets in terms of the market capitalization. In 1996, Confederation of Indian Industry (CII), took a special initiative on Corporate Governance. The objective was to develop and promote a code for Corporate Governance to be adopted and followed by Indian companies, be these in the private sector, the public sector banks or financial institutions, all of which are corporate entities. This initiative by CII flowed from public concerns regarding the protection of investor interest, especially the small investor, the promotion of transparency within the business and industry.

Basic Concept

Corporate Governance is a term that broadly refers to the rules, processes, or laws by which business are operated, regulated and controlled. The term can refer to internal factors defined by the officers, stockholders or constitution of a corporation, as well as to external forces such as customer groups clients and government regulations. It safeguards against corruption and mismanagement, while promoting fundamental values of a market economy in democratic society. It is a set of system and processes to ensure that a company is managed to suit the best interests of all stakeholders. The stakeholders may be internal stakeholders or external stakeholders, internal stakeholders may be promoters, members, workmen and executives and external stakeholders may be shareholders, customers, lenders, dealers, vendors, bankers, community, government and regulators. According to Cadbury Committee on financial aspects of corporate governance, It is the system by which companies are directed and controlled.

Corporate Governance is about managing top management, building in checks and balances to ensure that the senior management pursue strategies that are in accordance with the corporate mission. It is generally understood to mean the system that defines the distribution of rights and responsibilities among different participants in the corporation, such as the boards, managers, shareholders and other stakeholders.

Need for corporate Governance

This subject of corporate governance has attracted so much attention due to some fundamental reasons. The pressure for good corporate governance arises from fundamental, long term changes in the environment mentioned below.

- Globalization has increased the freedom opportunities and economic power of the corporate in the financial sector.
- Domestic liberalization has similarly enabled the local corporate and the companies to expand and globalize.
- Privatization of state owned enterprises puts huge assets in the hands of the new private management.
- Liberalization and deregulation has given sufficient freedom to operate. This resulted in markets becoming free and more complex. As greater freedom implies greater responsibilities it is necessary to have transparency.

AIMS OF CORPORATE GOVERNANCE

Economics is more concerned about profit earning, however profit must be earned in a ethical manner with due consideration to environmental issues. Corporate Governance aims in bringing the harmonization of conflicting interests of various stakeholders. These are mentioned in the following way.

- It helps corporations and those who manage them to attract investment.
- It encourages and strengthens the economy and discourages fraud mismanagement.
- It ensures efficient use of resources.
- It ensures openness and maintain transparency.

COMPELLING REASONS FOR CORPORATE GOVERNANCE

All well governed corporate organizations should recognize the importance of good business ethics and take cognizance of the environmental and social interests of the communities in which they operate. While the corporate governance principles incorporate code that are intended to project interests of the shareholders they are also expected to give due importance to safeguarding interests of the stakeholders like employees, creditors, suppliers, customers, environment etc. Effective co-operation of all the stakeholders is essential for creating wealth for the shareholders and building financially sound corporations. Happening in the past have fallen short of this basic requirement in the financial sector. Few

compelling reasons for corporate governance in financial sector are:

- Inadequacies and failures of existing system-leading to need for norms and codes to remedy them.
- Deficiencies in the accounting standards _ when became evident after many companies in their eagerness to increase earnings and accelerate growth, exploited the weakness in accounting standards to show inflated profits and understate liabilities.
- Financial crises in the Asian Market – highlighted the need for improved level of corporate governance as the lack of it in certain countries has been responsible for collapse of many corporations.
- Differing interest – the interest of those who have effective control over a firm can differ from the interest of those who supply the firm with external finance.
- Mismanagement – loss suffered by the investors and bankers on account of unscrupulous management of the companies which gave raised capital from the market at high valuation.
- Suppression of facts – allotment of promoter’s shares on preferential prices, disproportionate to market valuation of shares leading to further dilution of wealth of minority shareholders
- Inadequate attention – to the basic procedures for shareholders’ service – delay in transfer of shares, dispatch of share certificates and dividend warrants, no timely dissemination of information to investors
- Corporate governance attempts to remedy the above problems and promotes the adoption of globally acceptable practices.

Significant Trends in the corporate governance world include Corporate Governance covers a variety of aspects and important among them are protection of shareholders, rights, enhancing shareholders value. Board issues including the accounting practices, the control system in particular the internal control system. The trends also include women on corporate Boards, social Media Governance, and protection of whistleblowers, Active Participation of shareholders and the corporate compliance. These are explained below in depth how they help the play a vital role.

Women on corporate Boards

- More women are serving on corporate boards in India but then also the number is less as compared to other countries. Increasing the number of women on corporate boards will improve transparency and accountability. In United States over 70 percent of the companies have at least one women as director and as compared to other countries only 10 percent are female directors. The ratio of women in those countries are more profitable than companies with men ratio.
- **Social Media Governance**
Social media plays an important role in providing communications with the customers and information in the market place. Companies try to protect the reputation of the company due to social media. Social media have

led to disclosure of unethical and improper behavior of the senior management and the corporate.

- **Protection of whistleblowers**

Congress has taken an important initiative in expanding the protection of corporate whistleblowers. Many companies have been slow in this process.

- **Active participation of shareholders**

Shareholders play a vital role in carrying social responsibilities. Other companies continue to reject attempts to impose social responsibilities companies that deny to do so suffer a lot Shareholders are more demanding on corporate governance. This trend will continue.

CONCLUSION

Good corporate governance practice would assist the corporate to develop a credible opinion on its management quality and responsiveness towards the interest of all its financial stakeholders. Improved perception of investors may in turn influence its valuation and facilitate rising of funds at favorable terms. The corporate governance practice in the financial sector also improves the comfort level of the statutory authorities and regulators. It can also be used as a check to determine the relative standing of the company with respect to the benchmarks of best corporation practices in the industry. This alone can help the corporate to survive in the economy. Good Governance is the Key to Gaining Trust of Stakeholders

- Trust is the Foundation of Development
- Governance is much more than a set of Rules & Regulations
- Governance is a Culture and a Climate of Consistency, Responsibility, Accountability, Fairness, Transparency, and Effectiveness that is deployed throughout an institution.
- Good Governance is the key to Sustainability of our Organizations and success of humanity in Improving Quality of Life.

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