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"CORPORATE GOVERNANCE IN INDIA: PRINCIPLES AND PRACTICES"

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ABSTRACT:

In the age of competitive Globalization and dynamic world, business enterprises need to focus on innovative practices which will help in maximizing stake and shareholders wealth. The fundamental concern of corporate governance is to ensure that the firm's directors and mangers act ethically in the interests of he firm and its shareholders and that the mangers are held accountable to capital providers for the use of assets. The concept of corporate governance can be taken as a parallel to the quality practices under the ISO standard. It also involves entry of non-executive directors into the board, and making the members more positive and dynamic in their activities. All business information must be made available to them, and system controls are activated to ensure authenticity, timeliness and effectiveness of information. Globalization and Liberalization have taken the Indian corporate world towards the international field. This, not only is there a need to establish viable and acceptable corporate governance, but it should also conform to international standards. The basic principles of corporate of corporate governance are based on ethical parameters such as complete transparency, integrity and accountability. The present paper addresses the issues of corporate performance, transparency, strategies, executive functions, compensation and accountability, auditors and several related issues.

KEYWORDS*: Maytas, governance, corporate, Transparency, accountability, Globalization*

INTRODUCTION:

In those days when business used to be small, the owner and the manger were one and the same. Years later when the businesses increased in size with the advent of the joint stock organization there emerged a need to have two distinct and separate entities, one for management and the other to protect and further the owner's interest, on other worlds to 'Govern the Corporation'. Thus emerged the concept of corporate governance-a system by which companies are directed and governed. In order for a corporation to perform well the manger should be both 'able' and 'accountable'.

Corporate governance is rightly understood as putting people at the forefront of business, because all business must be fundamentally a matter of people rather than machines, products or even money. Good corporate governance has been sought to be implemented by attending to long term strategic goals, employees, community and environment, customers and suppliers, and compliance with laws and regulations. When seen deeply these various elements have one common theme running through them-that of being attentive to and conscious of ethical treatment of people in their various relations with the corporation. The ideal situation would, therefore, be when all parties are given equal share of corporate decision making.

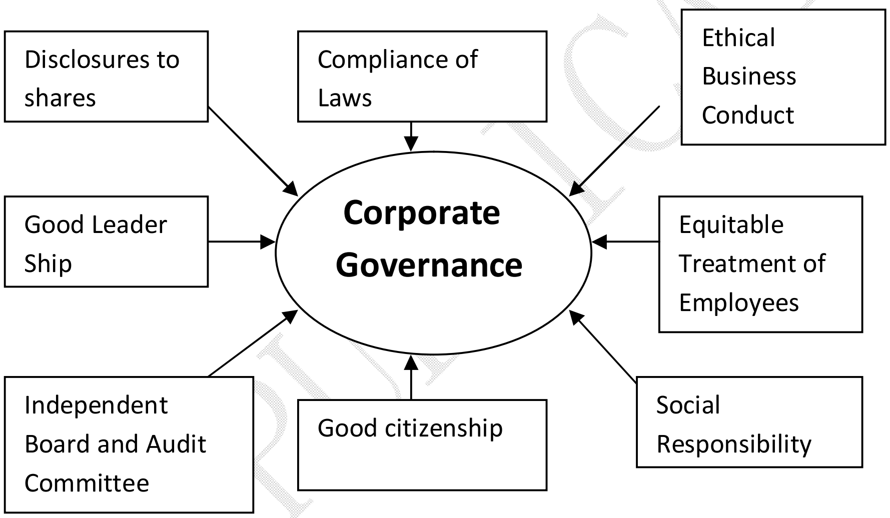
WHAT IS CORPORATE GOVERNANCE ALL ABOUT?

In Academics, corporate governance refers to an economic, legal and institutional environment that allows companies to diversify, grow, restructure and exist, and do everything necessary to maximize long term shareholders value.

Adrian Cadbury defines "Corporate governance is the system by which companies are directed and controlled"

The Institute of Directors (UK) "Effective corporate governance ensures that long term strategic objectives and plans are established, and that the proper management and management structure are in place to achieve these objectives, while at the same time making sure that the structure functions to maintain the corporate integrity, reputation, and accountability to its relevant constituencies.

In Short, corporate governance should be recognized as a set of standards which aims to improve the company's image, efficiency, effectiveness and social responsibility. It is simply no longer enough to comply with legal requirements. In one line, the relationship between the owners and mangers in directing and controlling companies as separate legal entities. Corporate governance at the highest level is about the Board of Directors.



Corporate Governance: The New Mantra

The age old Ricardian Theory of Competitive Advantage has been replaced by very many theories on competition and co-existence among the competitors leading to a new coinage, 'co-appetition' by Ray Noorda of Novell Software in 1993. The phrase corporate governance is of recent vintage. According to Bob Tricker there term come to the fore in early 1980s in the United States during the heydays of the corporate takeovers.

The major driving forces behind the changes were the collapse of anti-capitalist political ideologies, technology and its impact substantially contributed for the change in investor attitude and the investors were convinced that only good governance leads to good performance and the corporates have a responsibility towards the society as good "corporate Citizens" in this context it is worth mentioning that for the first time in India the "Corporate Citizen Award for school Relevance" was conferred on the Infosys Foundation. Corporate governance also aims at enhancing the value for both the shareholders and the stakeholders and also ensures the proper growth of the capital market in an economy.

Studies by some of the leading management consultancies attributed the reasons for corporate failures to three main factors viz. manipulation of financial statements, misuse of expense accounts and corruption at various levels. The best in few days back is **B. Ramalinga Raju, Chairman; Satyam** Computer Services has finally painted himself into a corner. Business today takes look at how the promoters of Satyam undid 21 years of endeavour in less than a fortnight. The six Satyam's deadly sins are as follows:

1. **Proposing a selfish, high-risk acquisition:** Mr. Raju announced to acquire two families owned businesses i.e. 100% share holding in Maytas properties and 51% in Maytas infrastructure.
2. **Overvaluing the proposed acquisition:** Analyst consider dishonest is the price the cash-rich Satyam was willing to pay for the two Maytas firms. Raju was willing to pay 6500crore but net worth of the Maytas firms was 1125crore.
3. **Promoters pledging their entire holdings:** The promoters informed Satyam that all their shares in the company were pledged with institutional lenders, and that some lenders may exercise or may have exercised their option to liquidate shares at their discretion to cover margin calls.
4. **Refusing to resign:** Nine days after Satyam announced its aborted acquisition bid, five Directors quit the Satyam. The big question, however, is should the management itself have resigned, given the huge breach of corporate governance at the company.
5. **Not being able to utilize cash effectively:** Satyam had cash of Rs5300crore on its balance sheet, which it did not seem to be utilizing as effectively as some of its competitors were doing.
6. **Messing up a sound company:** It has some 690 clients and 28 development centers around the world, that's nothings to be sneezed at, it's a pity somebody did.

ESSENTIAL GOVERNANCE PRINCIPLES

The Basel Committee has issued several papers on specific topics. These include "Frame work for internal control systems in banking organizations" (September-98) "Enhancing bank Transparency" and Principles for the management of credit risk (July-99).The following practices to avoid governance problems.

1. The Company should lay solid foundations for management and oversight: recognize and publish the respective roles and responsibilities of board and management.
2. Structure the board to add value: have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.
3. Actively promote ethical and responsible decision making.
4. Safeguard integrity and financial reporting: have a structure to independently verify and safeguard the integrity of the company's financial reporting.
5. Make timely and balanced disclosure of all material matters concerning the company.
6. Respect the rights of the shareholders and facilitate the effective exercise of those rights.
7. Recognize and manage risk through system of risk oversight and management and internal control.
8. Fairly review and Encourage enhanced performance.
9. Remunerate fairly and responsibly and its relationship to corporate and individual performance is defined.
10. Recognize the legitimate interests of stakeholders.
11. Corporate governance rating be made mandatory for listed companies.
12. Ensure that the board members are well qualified and not subject to pressure.
13. Ethical Approach: A clearly ethical basis to the business.
14. Conducting corporate governance in a transparent manner.

Corporate Governance and Stakeholders interests

A corporation has many human extensions of its being–namely, shareholders/Investors, employees, Customers, Suppliers and trading partners, community and environment.

Shareholders

The institutions see themselves as investors and not as owners. Their interest is in their funds and the performance of the funds rather than the companies in which they have invested. The small shareholder can claim very little moral influence as an individual in corporate performance.

Employees

It is clearly beneficial to the company to acquire, nourish and maintain a reputation for responsibility all round, including caring for the future of the employees. Fair treatment and active involvement of the workforce results in great benefits from loyalty to efficiency.

Customers:

Frequent contact with all customers is needed to keep them from deserting, and the level of their satisfaction and happiness with the company has to be assessed periodically, and strengthened, and their perception of corporate governance must be respected.

Suppliers and Trading Partners:

The old fashioned adversarial attitude has given place to partnership relationship with suppliers and dealers. It means working together for common good and mutual benefit. No one can deny its influence on their governance. This trend of products being purchased within the network of such partnerships is growing. Close customer-supplier relationships are developed resulting in such efficient processes as JIT (Just in Time)

Community and Environment

The impact on environment is highly influential not only for the present but also for the future. The environmental issues are highly ethical because they also are compounded with the issue of human rights of the affected.

The State

The corporations must be a good citizen. If the state demands a high rate of tax, the industry will seek defensive measures much against the interest of society. A balance needs to be struck which benefits all parties.

Approach to Good Corporate Governance

The law sets minimum standards of conduct. But it does not and can not embody the whole duty of man, and mere compliance with the law does not necessarily good company. The following steps are recommendable for good governance.

1 **Independent board:** constitution of board with at least 50% independent directors.
2 **Employees' participation**: For better governance, employees' participation and motivation, and given higher priority.
3 **Operational performance**: on the operational side, the companies have to implement risk management system for the whole company and periodical reporting and assurance to board be made on quarterly basis.
4 **Disclosure**: no doubt financial transparency and discipline is a must, but what is required is the fairness to all, compliance to law.

CONCLUSION

Governance is based on organizational culture and leadership. It is a journey and not destination. A journey the route of which should be decided by the corporate. It is the journey never ending and a journey for the growth and value addition. The Corporate governance must address the issues of interplay between companies' shareholders, creditors, capital markets, financial sector institutions, and the state represented by Company Law. It is a fairly substantive and radical code. It is vital for the well-being of corporate India it is what makes a company into 'My Company'.

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