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# Corporate Governance: The New viewpoint of company

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## INTRODUCTION

*Governance* is that separate process or certain part of management or leadership processes that make decisions that define expectations, grant power, or verify performance. Corporate Governance is the system, set of processes, customs, policies, and laws by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board of directors, management, shareholders and other stakeholders (include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large) and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance.

## ATTENTION TO CORPORATE GOVERNANCE

Corporate Governance issues are receiving greater attention in both developed and developing countries as a result of the increasing recognition that a firm's corporate governance affects both its economic performance and its ability to access long-term, low-cost investment capital. Numerous high-profile cases of corporate governance failure have focused the minds of governments, companies and the general public on this issue. Moreover, the whole issue of corporate governance became a matter of concern especially because of major shifts in public opinion and societal change on an international scale, together with the strategic requirements of newly emergent forms of business structure, new technologies, globalization and new forms of competition and particularly the investment by the foreign financial institutions in the emerging markets. In other words, when investments take place across national borders, the investors want to be sure that not only is their capital handled effectively and adds to the creation of wealth, but the business decisions are also taken in a manner which is not illegal or involving moral hazard.

***Corporate governance therefore calls for four factors: -***

a) To build up an environment of trust and confidence amongst those having competing and conflicting interest

b) Transparency in decision-making

c) Accountability which follows from transparency because responsibilities could be fixed easily for actions taken or not taken, and

d) The accountability is for the safeguarding the interests of the stakeholders and the investors in the organization.

Thus, Corporate Governance is a set of rules stipulated for according due weight-age to foster ethical behavior which would help in enhancing the reputation. Thus the code of Governance is as applicable to individuals; the same is also applicable to Corporate.

## DEVELOPMENT IN CORPORATE GOVERNANCE IN INDIA

The development of the Indian corporate sector can be divided into three distinct phases. In the first phase, which lasted from the beginning of independence of the late 1960s, the corporate sector was dominated by 20 family groups who had their beginnings as traders in the pre-independence era and who took a pioneering interest in the industrialization of the country in the post-independence era. These family groups developed strong political connections and took full advantage of the licensing system to control a large portion of the industrial activity.

During the second phase of development from the early 1970s to the mid 1980s, which can be called the socialist phase, these traditional family groups came under intense pressure. During this period a Monopolies Commission was established and restrictions were imposed on the expansion of the family groups, ostensibly with a view to broadening the entrepreneurial base in the country. This phase saw the emergence of a new breed of entrepreneurs who quickly seized the advantage and competed effectively with the traditional family groups. The second phase also saw the emergence of the financial institutions as shareholders in large companies. Access to credit from the financial institutions was based on an important conditionality of converting loans into equity, and this gradually gave the financial institutions a commanding presence in the corporate sector. As the financial institutions were under the control of the government, theoretically the government controlled a large part of India's private corporate sector.

The third phase in the development of the Indian corporate sector began in 1991 with the liberalisation and the globalisation of the Indian economy. With competition replacing the old protected environment, the corporate scene in India is undergoing a sea change. Indian corporations are seriously engaged in re-evaluating their strategy. Under the former regimented system, diversification of the industrial base was dependent on the availability of industrial licenses. When that system withered, the corporations began applying their minds seriously to the concept of core competence. Businesses are being divested, new businesses acquired and efforts being made to scale up operations to international size. This process also raises important issues of corporate governance, including a much greater degree of professionalism of the management. Nonetheless, there are no immediate signs of a clear demarcation emerging between ownership and the management.

## IMPORTANCE OF CORPORATE GOVERNANCE

* Corporate governance has succeeded in attracting a good deal of public interest because of its apparent importance for the economic health of corporations and society in general.
* Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.
* Corporate governance provides proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently
* The corporate governance structure spells out the rules and procedures for making decisions on corporate affairs.

* Corporate governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be more fully informed in order to maintain or alter organizational activity. Corporate governance is the mechanism by which individuals are motivated to align their actual behaviors with the overall participants.
* Corporate governance is a tool for competitive advantage. Normally when we look at the issue of competitive advantage from a managerial point of view, we can look at those factors, which are within the control of the enterprise. This relates to the focus on quality, productivity as well as innovation, which are the basic requirements, in a highly competitive environment. This is needed for getting the competitive edge in a market where the customer is king.
* The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
* The corporate governance framework recognizes the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
* The corporate governance framework ensures the timely and accurate disclosure of all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. A strong disclosure regime can help to attract capital and maintain confidence in the capital markets. Disclosure also helps improve public understanding of the structure and activities of enterprises, corporate policies and performance with respect to environmental and ethical standards, and companies' relationships with the communities in which they operate.
* Corporate Governance as a catalyst for Organizational Change.

## A VIEW ON ECONOMIC TIMES CORPORATE GOVERNANCE SURVEY:

The Economic Times (ET) Corporate Governance survey uses the six parameters to evaluate the rank of the organization. They are (1) accounting quality (2) Value creation focus (3) fair policy and actions (4) Communications (5) Effective governing board (6) Reliability. 40 companies are taken. They are ranked by 147 strong samples of top fund manager and brokers. The respondents were from Mumbai (46%), Delhi (20%), Kolkata (20%), and Chennai (14%).

**RESULTS:** In Corporate Governance ranking of ET, Infosys Technology attains top position. Tata Steel in second position, HDFC in fourth, Tata Motors in sixth, Ranbaxy Lab, Hindustan Lever in tenth, State Bank of India in thirteenth, ONGC in sixteenth, Zee telefilm in thirty - eighth position respectively.

**Table (1) Overall ranking of ET corporate governance survey**

| Company | Overall ranking | Sector wise ranking | Value creation ranking |
|---|---|---|---|
| Infosys Technologies | 1 | 1 | 1 |
| Tata Steel | 2 | 2 | 2 |
| Wipro | 3 | 3 | --- |

| | | | |
|---|---|---|---|
| HDFC Bank | 4 | 4 | 4 |
| HDFC | 5 | 5 | 6 |
| Tata Motors | 6 | 6 | 9 |
| Reliance Industries | 7 | 7 | 3 |
| ITC | 8 | 8 | 7 |
| Ranbaxy Laboratories | 9 | 9 | 11 |
| Hindustan Lever | 10 | 10 | --- |
| Hero Honda Motors | 11 | 11 | 10 |
| Larsen and Toubro | 12 | --- | 8 |
| State Bank Of India | 13 | --- | 20 |
| Bajaj Auto | 14 | ---- | 13 |
| ONGC | 15 | 15 | 13 |
| Gujrat Ambuja Cement | 16 | ---- | 17 |
| Hindalco Industries | 17 | ---- | --- |
| Grasim Industries | 18 | ---- | 13 |
| Cipla | 19 | 19 | 11 |
| BPCL | 20 | 20 | --- |

**Table (2) SINS OF OMMISSION**:

| Company name | Major missing/ vaguely discussed/misrepresented issues |
|---|---|
| Bajaj Auto | The scooter industry considers both geared scooters and automatic/ gearless scooters together as a single segment. But Bajaj Auto considers only the geared scooter segment in which it happens to be the market leader, while ignoring the other segment. |
| Dabur India | The impact of the product patent regime of the firm's division has not been covered. The less than satisfactory performance of the company in the FMCG sector has been attributed to environmental factors. Internal weakness have not been discussed |
| Hindustan Lever | There is no disclosure on future plans for Dalda even though the company admits that there has been a distinct shift in consumption pattern from Vanaspati towards vegetable and soyabean oil. Stagnant sales over the last few years have been blamed on the increasing spend on consumer durables. This is hardly a complete explanation |
| Ranbaxy Laboratories | Pharma companies in India are faced with the huge problem of spurious drugs eating into their markets. The impact of spurious drugs on the company has not been discussed |
| State Bank Of India | Only facts are given and there is no analysis. The voluntary retirement scheme (VRS) process has not been discussed. |
| Wipro | The sexton dealing with risk management is very vague. It does not indicate clearly how the risks identified will affect the company. |
| Tata Steel | The report makes some misrepresenting statements. For example, it says one of the reasons for forecasting good steel demand is that GDP is expected to grow at six percent. |
| SmithKline /beecham Consumer Healthcare | The Horlicks brand generates nearly three-quarters of the sales for the company's over-reliance on the Horlicks brand has not been discussed. |

**Table (3) Characteristics of Corporate governance players in three countries:**

| **Employees** | **United state** | **Germany** | **Japan** |
|---|---|---|---|
| | (1) Flexible labour<br>(2) Low unionization<br>(3) Employment a will | (1) Work council<br>(2) Co-determination<br>(3) High skill<br>(4) Non flexible labour market | (1) Enterprise union<br>(2) Life-time employment<br>(3) Medium skill |
| Shareholders | (1) Institutional investors<br>(2) Individuals<br>(3) Dispersed | (1) (1) Other non-financial<br>(2) Companies<br>(3) (2) Banks | (1) Other non-financial firm<br>(2)Banks |
| Government | (1 ) Liberal policies<br>(2) Arms-length<br>(3) Weak takeover barriers | (1) Protectionist policies<br>(2) Medium takeover barriers | (1) Protectionist policies<br>(2)Strong takeover barriers |
| Board of director | (1) High activism<br>(2) High % of outsiders | (1) Moderate activism<br>(2) Stakeholders as a Significant minority<br>(3)Medium size | (1) Low activism<br>(2) Large % of insiders<br>(3) Large size |
| Top management Team | (1) Professional<br>(2) Some foreign born management<br>(3) Open labour markets | (1) Technical background<br>(2) Few foreign born manager<br>(3) Closed labour markets | (1) Common educational background<br>(2) No foreign born management<br>(3) Closed labour market |

**SUMMARY AND CONCLUSION**:

Corporate governance is now the focus area of all business entities. The relation between corporate governance and organizational performance is of fundamental importance. There are few compelling results that clearly demonstrate how corporate governance produces the outcomes desired by stockholders or more broadly stakeholders. We certainly believe that appropriate governance mechanisms are a necessary and vital part of a capitalistic economy. However we have considerable concern about whether any of the existing structural measures of governance rating provides a useful basis for identifying good governance. So before imposing a governance structure in a company, it must verify scientifically that the changes are likely to produce necessary outcome. To survive in the competitive world, an organization must have a value based governance system.

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