CORPORATE GOVERNANCE

- **Suyash korde**

Countries are governed by political parties and Companies by the Board of Directors. The shareholders lend their money to business, but are incapable of running the day to day affairs of the company; just as tax payers give tax to the government and elect representatives to run it; and hence the task is assigned to the Board of Directors. Directors also hold their shareholding in the company, thus ensuring that they too are accountable to the company and do not do anything to jeopardize the position of the company**. Corporate Governance hence is a kind of a Trusteeship for the company.** But is also not simply a matter of creating checks and balances.

The primary need is for **creation of Conscience** for the Board of directors for their decisions and Consciousness for the Employee's for their responsibilities. A Balance is needed between the individual interest of those among the board and the needs, capabilities and resources of the company. Achieving this balance depends on accountability and transparency of the company. **Except until recent times the government chose to put upon itself the task of controlling companies thus reliving the management from the responsibility that was always actually theirs to handle.**

The start of governance for the corporate was in United Kingdom with the formation of the Cadbury Committee lead by Mr Adrian Cadbury. In the 1980's the British Economy was booming and companies progressed taking advantage of the economic opportunities but still the era ended in recession for them. What was noticed alarmingly by the Cadbury committee was that financial reports of most companies did not give an indication of the risk that they were exposed with. This exposed one fact about the fundamentals of the company that the lack of competitiveness could lead to performance pressures.

Following are the formats required by the Cadbury code

A COMMITMENT TO COMPETENCE AND INTEGRITY

- Documented employment policies
- Personnel procedures manual
- Documented recruitment procedures
- References and proof of qualifications of recruits obtained
- Staff development and training programme
- Staff grading structure
- Non-executive directors of suitable standing overseeing directors' remuneration and the general area of corporate governance
- Directors' approval of loans to and use of company resources by managers
- Disclosure of gifts, loans and conflicts of interest of directors

CONTRACTS

- Inaccurate accounting for contract results,
- Failure to promptly recover all amounts due from customer
- Losses arising on contracts due to inaccurate estimating,
- poor performance, unplanned events,
- onerous contract terms, etc

The Cadbury code focused need specific to UK. Hence we must use the broad principles to devise our own solutions since the requirements in India regarding management are much different to that in other countries.

With Liberalization, there is a need for the government to focus from the economic environment to the social sphere. **Industry is capable of handling its own future. The current economic boom has led to opportunity, but increased competition and a aware investor who demands accountability and transparency.**

If the corporation wants to excel on its own, **governance must penetrate each and every decision and transaction even beyond the boardroom.** It must influence the way the company responds to the suppliers, shareholders, customers and Nation at large. But more important than the hardware made by the listing agreements and rules on **corporate governance is the software that creates a attitude of transparency and openness and the confidence that every person in the organization will do on his own what is right!!**

The market has already started distinguishing the good and the bad. Financial analysts and Brokers now debate about real value creating projects undertaken by the company and not just based on published results. The story that the statements foretell can be illuminating hence it is the self interest of the company to survive these tests of governance.

Lineage decided the fate of Politics and Business up till now!! The Board of directors comprise of the executive directors, the chairman and external non executives. Rather than infusing lineage in the core committee and then seeking the help of non executives for professional advice it, there is a need to professionalize the Board. This should also be supported by effective internal succession planning.

Constant renewal of the board inculcates creativity and a changing scenario that motivates the management team to become Board members. Corporations such as Infosys are a leading example of this with Nandan Nilekani replacing Mr Narayana Murthy as the Chairman of the Board and later on by Mr Gopalakrishnan. **They decide the next best leader in the organization. Thus it also important that traditional managers encourage the succeeding generations to out perform.** The Boards most important task is to steer, support and supervise people to translate organization strategy into action. Various Boards were under close scrutiny since they did not display enough enterprise nor provide support to implement the objectives. They key part is improving the shareholder value.

Disclosures made regarding the Board in Corporate Governance reports

1.Name of Directors their personnel details such as education in respective fields, projects handled , date of joining as a member of board etc.

2. No. of Shares held in the company, in associate, subsidiaries and holding directorship in other companies

3. No. of committees formed and directors on such committees eg : - audit committee, Investor Grievance committees

4. The no. of Executive, Non Executive and Independent Directors.
5. No. of committees formed to oversee each function and a information regarding composition of the committee's

6. No. of Board Meetings held and dates of holding these and directors present at these meetings.

7. Remuneration to different classes of directors and other perquisites and incentives given to them eg: - ESOP's , sales linked bonuses.

The CEO must encourage debates and discussions but once the action plan is adopted all resources whether human, financial, productions must follow the same course. The **non executive directors when chose meticulously display the board strength with the overall practice outside the company. They play the role of counselors. This is a function not of Numbers but caliber!!**

The Chairman must act as a custodian of corporate ethics to ensure business principles and morals are followed. In India, the Chairman is seen as a personification of the company such as Mr Ratan Tata for the TATA motors and Anil Ambani of the ADAG group for Reliance Infocomm etc. Hence he must mould his operating style and personality with the one that suits the image of his company best. **He must balance the short term goals with the long term one's to see that the organization he hands over is stronger than the one he inherits!!!**

Business environments change constantly so that learning new business practices is needed to achieve professionalism across functions for employees. This is how a company converts every employee into a self driven entrepreneur willing to take risks.
Risks should never become gambles. Therefore a employee must be willing to take the responsibility that comes with it. All employees must know what is expected of them.

It is a good practice to publish codes of ethics internally and externally through employee reports, audit principles, security measures etc. Communicating these is not enough employees must follow them internally and externally. Employees must be able to read the Boards Vision and mindset. The Board must communicate that no employee will be held guilty of observing the corporate principles irrespective of the monetary disadvantage. Through an understanding of the Codes the self regulated employees emerge that create a self assessed company.

A Cultural shift is needed across companies for better compliance through the audit tool. **The process of auditing is seen as a interference and leads to defensive employee responses. Audit employees can take risk but within organizations accepted regulation standards.** Internal Audit must shift from detection of frauds to providing assurance that actions do not expose exorbitant risk and losses and do not damage the reputation of the company. Unless employees perceive this shift from fault finding to value addition only then can auditing be seen as a worthy job. **Through self assessment the company acquires confidence** to be scrutinized as a corporate citizen.

The government has often given importance to the quantity rather than the quality of disclosures. Disclosures like licensed capacity, employee particulars, details of remuneration, etc have been designed to minimize interference from governmental bodies. In absence of such disclosures companies are viewed under constant suspicion and with relative freedom now as was compared to companies of the older era. There are proposals to give shareholders a understandable picture of the company, the different business it operates and a idea of its future prospects and be involved in the shareholders concerns.

A increase in the no. of share transfer transactions has also given importance to disclose data in the corporate governance report as follows

- The no. of share transfers
- Correspondence for shareholder queries to the registry department Data regarding the no of shareholdings
- Denomination of shares held and no. of shares held by each.
- No. of Investor grievance complaints and the reasons and actions taken by the board thereof.

Category and percentage of shareholding

- Promoters
- FII's / NRI's / OCB's
- Mutual Funds,
- Banks and Financial Institutions
- Private Equity etc.

Finally Law cannot decide the fate of Business with increased awareness investors will not depend on government to protect them. The unforgiving stock market will shift focus on self driven, self assessed and self regulated organization which is what corporate governance is all about!!

Thank You for reading!