A Study of Corporate Governance Principles to be Framed for The Ethical Run of an Organisation

Divya Purohit*

Abstract

The paper is essentially theoretical in nature and makes limited reference to some "real-world" illustrations. On the above basis of the literature available, the paper evolves theory to contend that a good policy framework is a pillar of good governance – recognized as such globally by governments and regulators in all emerging (and other) markets. This paper also throws light on the important principles of the corporate governance.

Introduction: Corporate governance refers to the host of legal and non-legal principles and practices affecting control of publicly held business corporations. Corporate governance is based on the concept of four Ps' namely people, purpose, process and performance .Most broadly, corporate governance affects not only who controls publicly traded corporations and for what purpose but also the allocation of risks and returns from the firm's activities among the various participants in the firm, including stockholders and managers as well as creditors, employees, customers, and even communities.

The people aspect of the corporate governance is related to the equity, ethics and relationship. These can be considered to be the most important parameters for managing the people aspect of the corporate governance. Further to it is the purpose of the corporation, which may assist in the governance style. Purpose is a broad statement of various organizational objectives to be attained in a broader time frame. They may provide a basis for adopting a particular direction for the attainment of the organizational goals. The process is the management, compliance and innovation, amalgamated for a specific reason. It may include organizational, recourses, supply chain, marketing and brand promotion, outsourced process, environment and energy, relationship energy, information system and risk and crisis management. In the compliance organization has to comply with rules and regulations statutes laws enforced by the state and central government. Process innovation may be the ability of the organization to adapt to the required changes for the development in a positive direction. The performance is linked with the efficiency. It is majorly about the performance that an organization has to work upon. The association of performance with responsibility and accountability cannot be ignored. There exists a strong need to analyze the performance on the timely basis for generating a report of the outcomes to the stake holders.

Therefore it can be clearly stated that everything in the governance system is interlinked. There is both the importance of a proper understanding and acceptance for the system as generated with rational thinking. With the development of the concept for the corporate governance we can move on to the definitions as provided by researchers. Some of the widely accepted definitions of corporate governance are as follows:-

Corporate governance system is the combination of mechanisms which ensure that the management (the agent) runs the firm for the benefit of one or several stakeholders (principals). Such stakeholders may cover shareholders, creditors, suppliers, clients, employees and other parties with whom the firm conducts its business. - Goergen and Renneboog, 2006.

Corporate governance deals with the conflicts of interests between the providers of finance and the managers; the shareholders and the stakeholders; different types of shareholders (mainly the large shareholder and the minority shareholders); and the prevention or mitigation of these conflicts of interests. - Marc Goergen, 2012.

Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return. (Mathiesen, 2002).

While the board is accountable for oversight of the governance process, management is responsible for implementing the policies and procedures through which governance occurs within the organization. The board is responsible for understanding—and for advising management on—the processes through which governance occurs within the organization, and is accountable for the results of those processes. The CEO and the board of directors set the tone at the top and play an oversight role, which affects the corporate environment in terms of integrity, ethics, and other

*Lecturer, Institute of Management Studies, DAVV, Indore

factors (Horton, 2002).

The sheer complexity of governance and the huge number of related procedures and other mechanisms in a global financial institution may indicate a need for a governance operating model.

In practice, a governance operating model should:

- Organize operational, financial, risk management, and reporting processes such that the board receives the information it requires to effect good governance and management and the business units can conduct their activities in ways that comply with regulations and serve strategic ends
- Bring the organization's governance framework down to the level of roles, responsibilities, reporting lines, and communications to bridge the gap between the governance framework (discussed in the following section) and operational realities
- Help people to answer questions such as, "Why are we doing this?" "Is this okay?" "Whose call is this?" and "Who do we need to tell about this?" and to know when to ask such questions
- Sustain governance by creating a feedback loop in which the board and management can identify and respond to new business, operational, competitive, and regulatory needs

The impact of corporate governance on the financial supervisory activity of the authorities was examined by Monaci (2006). He concluded that if governance mechanisms work effectively, supervisory authorities intervene only rarely, because this means that the market is efficient.

Governance at all levels but particularly the international level involves corporations and their stakeholders. Together they have created non-statutory corporate social responsibility (CSR) standards which now influence significant amounts of international trade and investment, thereby presenting new benefits, risks and challenges for sustainable development. Governments around the world are now innovating public policies on these standards, which can be categorized to inform policy development: governments prepare, prefer, promote and prescribe CSR standards. Therefore, a new dimension to collaborative governance is emerging and would benefit from research and technical assistance. As concepts and practices of regulation and governance are moving beyond state versus non-state, mandatory versus voluntary approaches, so issues about transparency, accountability and democratic participation remain important for any new manifestation of regulation or governance.

Following China entered the World Trade Organization in November 2001, attention has been paid worldwide to the current Chinese legal system, political policies, and the development of economic reform. Recent debates on corporate governance in China have become a global topic of interest. The corporate governance reform is now the centre of the enterprise reform. However, corporate governance reform in China is still at an early stage of development.

The phrase corporate governance came into use in the UK following the code of best practice published by the Cadbury Committee (Cadbury Report, 1992). In the UK Cadbury (1992) promoted in its code of best practices, three principles of corporate governance – openness, integrity and accountability, recognizing these as the foundation for good corporate responsibility in every company. Subsequently, these principles have been embraced by many continents and countries in their own governance codes. There are also committee reports like the Greenbury and Myners committee in United Kingdom They can also be seen in many laws and regulations as mandatory requirements for organizations of all sizes and sectors. Greenbury talks about non excessive pay for the executives and also the compensation committee with the outsiders. Myner committee speaks about the model company management and the best practices of governance.

The corporate governance of United States of America has provisions for confidential ballots election to be counted by the independent tabulators. Two third of the corporators to be independent. Disclosure of the financial and relationship by the firms to the stakeholders. Formal committee sets ups for audit nomination and compensation.

Germany's corporate governance is based on the director and shareholder relationship and its strength. There exists a board for representing the interests of the shareholders. DSW (Duetche Schutzvereingung fuer Wertxpepier-bestiz) is the organization which takes care of the corporate governance structure within the corporations by framing proper rules and regulations for the same. There exists a one share one vote system in Germany.

France has an association with corporate governance based on the Vienot report recommendations as a benchmark. Periodic review and updating of best practices is based on the investors from the outside as well. Twin concept of Independence and accountability exists. Representation by the corporate board of the investors in the firm and a relationship based bonding is the key to perfect corporate governance in the country.

Russia already has a well established system of corporate governance system. This system is also backed by the laws and legislations of the country. Still there is a lot of negligence that can be seen in the system both during the process management and compliance level. Majorly the system of Russia talks about high standards of

governance assure through legislative provisions. Ethically not legally governed system to be inculcated is another criterion. Recommendations about the best practices are also made without mandating the same.

The scopes and principles of corporate governance and responsibility have been evolving and linking together over the past decade in developed and emerging markets. It is not difficult to link good governance, risk management and control in any market or organizations to sustainability principles and concepts: they are keys to the implementation of all corporate responsibility strategies. Historically they have existed for many years in every organization, though their formality, efficiency and effectiveness have varied and still vary across organizations, sectors and countries. Currently the formality of risk management has received a high profile in governance at board levels in financial institutions, but in reality that high profile applies to all companies. Weak management of risk, control and monitoring across an organization can quickly lead to unsustainable practices, significant loss of resources and life, even failure of the organization.

Although most studies focused on the USA (i.e. Lintner, 1956; Gitman and Forrester, 1977; Gitman and Mercurio,1982; Stanley and Block, 1984; Epps and Mitchem, 1994; Poterba and Summers, 1995; Billingsley and Smith, 1996; Bruner et al., 1998; Block, 1999; Graham and Harvey, 2001; Brav et al., 2005), international survey research have been documented as well. Most studies focused on the UK (i.e. Sangster, 1993; Pike, 1996; Arnold and Hatzopoulos, 2000; Dhanani, 2005; Beatty et al., 2006). While concentrated ownership structure is a distinguishing feature across Europe, corporate law plays a minor role (Gugler, 2001). The role of corporate governance suggests that shareholder's value maximization of the firm is an outcome of these mechanisms. It is also argued that large shareholders have incentives to monitor management and hence reduce agency costs (La Porta et al., 1999).

Conclusion and Recommendations: From the above mentioned facts about the nations of the world and their corporate governance styles, it can be very well stated that there should be a proper formulation of policies for the governance in an ethical and proper manner.

As per the above based facts a brief list of principles can be framed:-

- Corporate governance practices should provide shareholders with a real opportunity to exercise control over the governance.
- Corporate governance practice should talk about equity in terms of profit, responsibility and accountability sharing.
- Corporate governance fixes the strategic management responsibility also within the entire system.
- Composition of the board of directors of the firm should provide the most efficient performance system.
- Corporate governance practice should provide for timely disclosure of full and accurate information about the company.
- Rights and legal interest of shareholders should be forever kept in mind.

These can be considered as the most important principles for the proper governance of the corporations.

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