CORPORATE GOVERNANCE

Corporate Governance

- Corporate Governance refers to the set o
systems, principles and processes by whi
company is governed.
- They provide the guidelines as to how th
company can be directed or controlled –
fulfill its goals and objectives – adds to th
value of the co & beneficial to the
stakeholders in the long run.

- Stakeholders – everyone ranging from th
Board of Directors, Management, shareholders to customers, employees a
society.
- C.G is the technique by which companies
directed and managed.
- It means carrying the business as per the
stakeholder's desires.

- It is all about balancing individual and so
goals, as well as economic and social goa
- It also deals with determining ways to ta
effective strategic decisions.
- Corporate Governance ensures transpar
which ensures strong and balanced econ
development.

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- It ensures that the interests of all shareh
  are safeguarded.
- It encourages a trustworthy, moral as we
  ethical environment.

Meaning of Corporate Governa

- Refers to the relationship that exists betw
  the different participants and defining th
  direction and performance of a corporat
- Actors – The CEO, Board of Directors, Shareholders.
- Other Actors – Staff, Suppliers, Creditors
  Customers and the Community.

- Corporate Governance is a systematic pr by which companies are directed and controlled to enhance their wealth gene capacity.
- It is a set of relationships….
- Companies around the world are realizin better Corporate Governance adds considerable value to their operational Performance:-

- It improves strategic thinking at the top by inducting independent directors who bring a wealth of experien a host of new ideas.
- It rationalizes the management and monitoring of risk firm faces globally.
- It limits the liability of top management and directors, carefully articulating the decision making process.
- It assures the integrity of financial reports.
- It has long term reputational effects among key stakeh both internally and externally.

The corporate governance framework co of:

- (i) Explicit and implicit contracts betwee company and the stakeholders for distrib of responsibilities, rights and rewards.
- (ii) Procedures for reconciling the conflic interests of stakeholders in accordance v their duties, privileges and roles.
- (iii) Procedures for proper supervision, co and information-flows to serve as a syste checks- and-balances.

Corporate governance consists of two eler

- The long term relationship which has to with checks and balances, incentives for manager and communications between management and investors.
- The transactional relationship which invo dealing with disclosure and authority.

Definitions

- OECD (1999), “Corporate governance is the system by
business corporations are directed and controlled. The
corporate governance structure specifies the distribut
rights and responsibilities among different participant
corporation, such as the board, managers, shareholde
other stakeholders, and spells out the rules and proce
for making decisions on corporate affairs. By doing thi
provides the structure through which the company ob
are set, and the means of attaining those objectives ar
monitoring performance.”

Concept of Corporate and Governance

- Corporate is a business or entity which h separate legal personality, with limited li or unlimited liability for its members or shareholders, who buy and sell their shares/stocks depending on the perform of the board of directors.

- Governance is the act of governing. It rel
to decisions that define expectations, gra
power, or verify performance. It consists
either a separate process or part of decis
making or leadership processes.

Good Corporate Governanc

- It ensures:
- ➢ Adequate disclosures and effective decis
  making to achieve corporate objectives;
- ➢ Transparency in business transactions,
- ➢ Statutory and legal compliances,
- ➢ Protection of shareholder interests,
- ➢ Commitment to values and ethical condu
  business.

- The aim of “Good Corporate Governance
ensure commitment of the board in man
the company in a transparent manner fo
maximizing long-term value of the comp
for its shareholders and all other partner
integrates all the participants involved in
process, which is economic, and at socia

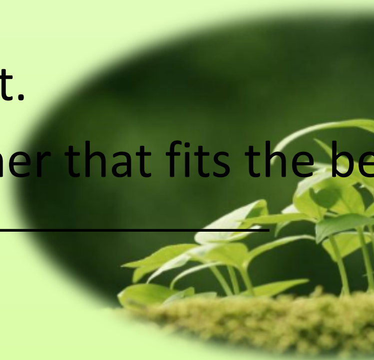
- A properly structured board capable of taking independent and c
decisions is in place at the helm of affairs;
- The board should be balance with regards to the representation
adequate number of non- executive and independent directors w
take care of their interests and well-being of all the stakeholders,
- The board adopts transparent procedures and practices and arriv
decisions on the strength of adequate information;
- The board has an effective machinery to subserve the concerns c
stakeholders;
- The board keeps the shareholders informed of relevant developr
impacting the company:
- The board effectively and regularly monitors the functioning of th
management team;
- The board remains in effective to control the affairs of the compa
times.

Significance and Importance Corporate Governance

- Changing Ownership Structure
- Importance of Social Responsibility
- Growing Number of Scams
- Indifference on the part of Shareholders
- Globalization
- Takeovers and Mergers
- SEBI

Benefits of Corporate Governa

- Good corporate governance ensures corporate success and econ growth.
- Strong corporate governance maintains investors' confidence, as of which, company can raise capital efficiently and effectively.
- It lowers the capital cost.
- There is a positive impact on the share price.
- It provides proper inducement to the owners as well as manager achieve objectives that are in interests of the shareholders and tl organization.
- Good corporate governance also minimizes wastages, corruption mismanagement.
- It helps in brand formation and its development.
- It ensures an organization to manage in a manner that fits the be interests of all.



Corporate Governance and t
Economy

- Good corporate governance practices sh make firms more profitable and product turn contributing to the overall health of economy.
- Why is it important ?
- Why was it in the news recently? (Corpo Fraud by Satyam)

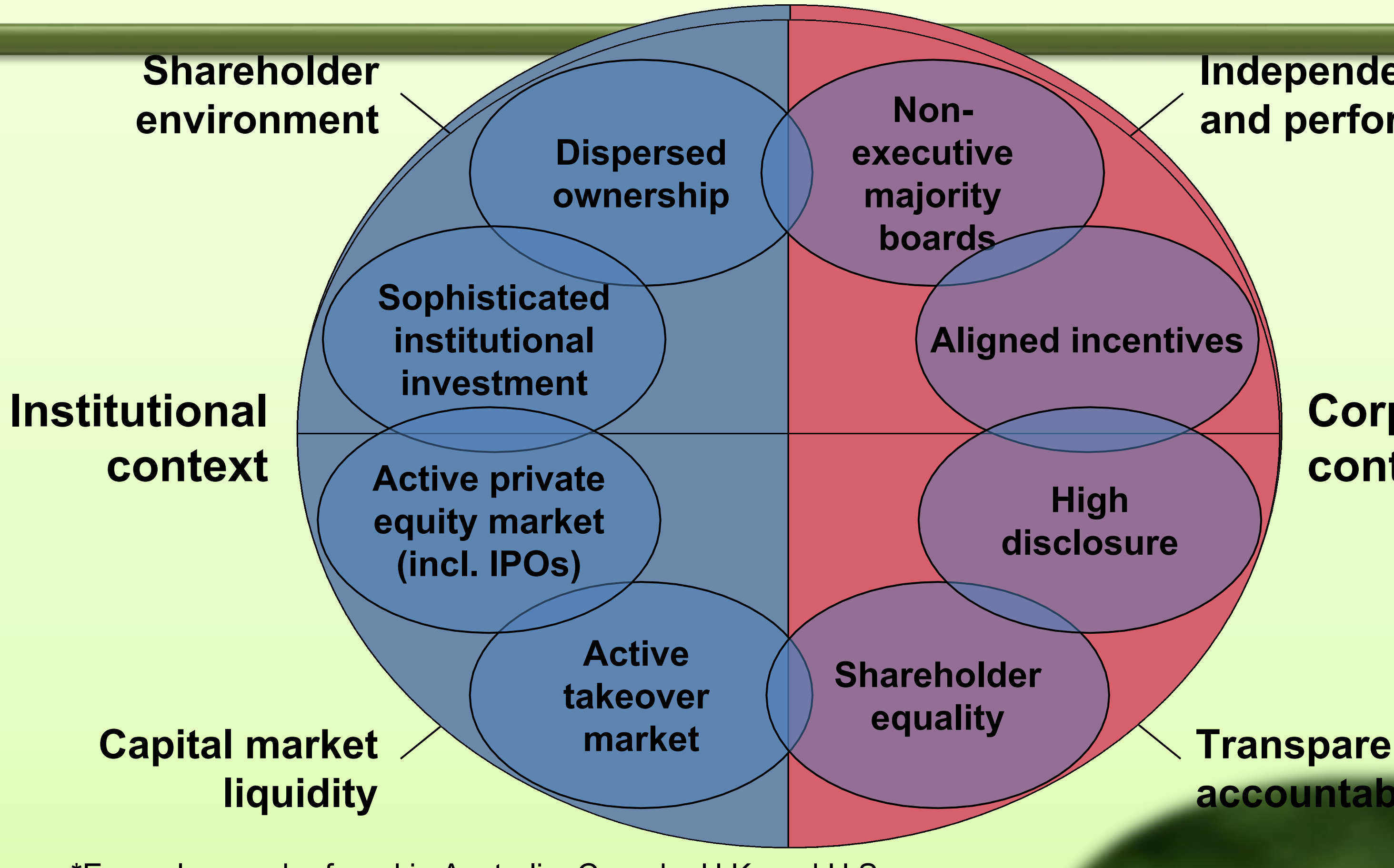
Models of Corporate Governa

- Market Model or Outsider Model
- Control Model or Insider Model

Model-1- Market Model

- Mathematical representation of the interactions among various participants, economic forces, and choices made.

The market model governance ch



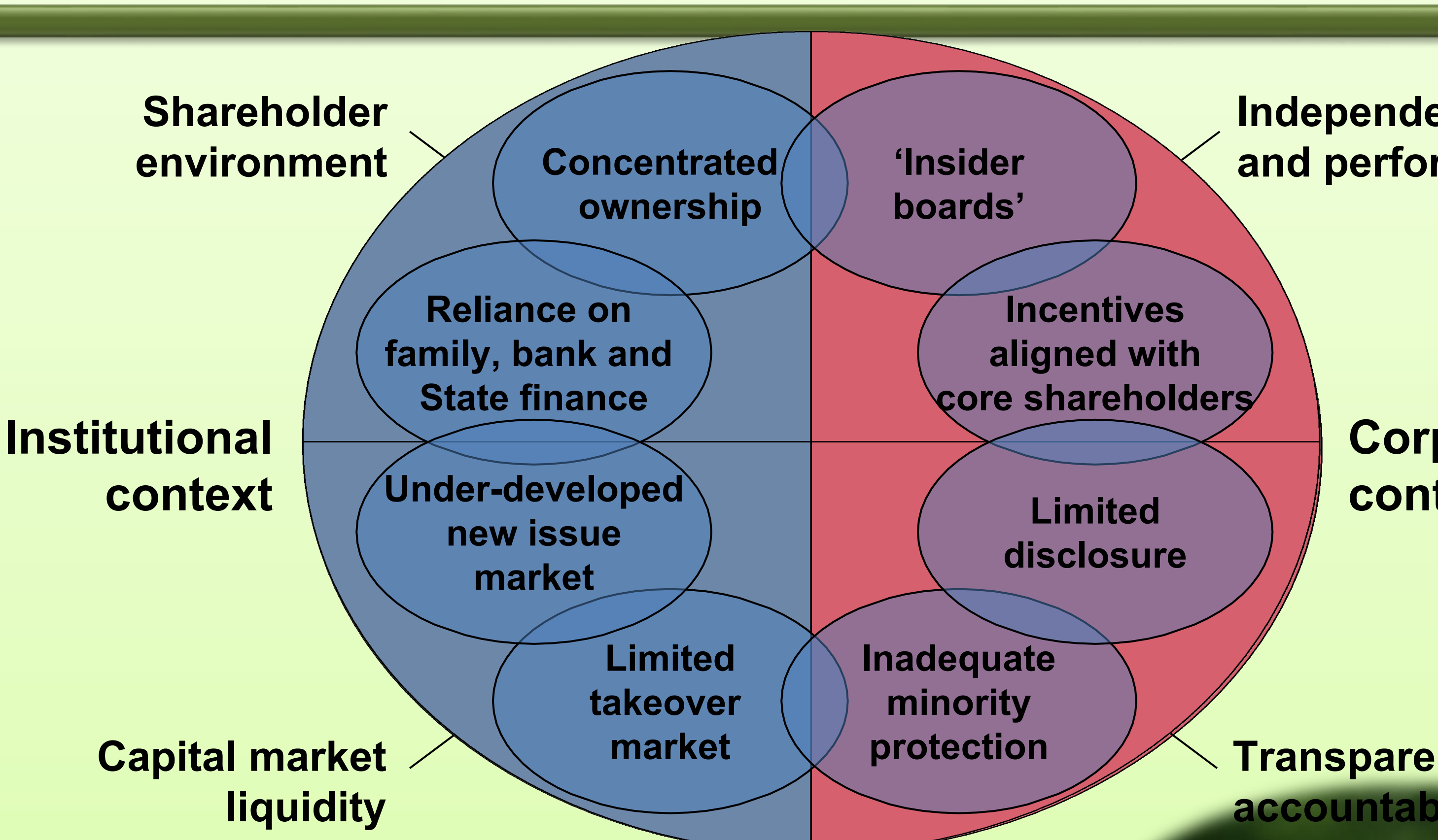
*Examples can be found in Australia, Canada, U.K. and U.S.
Source: McKinsey

- Characteristics:
- A priority to market regulation.
- The owners of firms tend to have a transitory interest firm.
- The absence of close relationships between sharehol management.
- The existence of an active market for corporate contr takeovers.
- The primacy of shareholder rights over those of other organizational groups.

Control Model

- Represented by underdeveloped equity markets, concentrated ownership, less shareholder transparency and inadequat protection of minority and foreign shareholders.

The control model governance ch



*Examples can be found in Asia, Latin America and many Continental and South Eastern Europea
Source: McKinsey

Control Model

- The priority to stakeholders control
- The owners of firms tend to have an enduring interest company
- They often hold positions on the Board of Directors or senior managerial positions
- The relationships between management and sharehol close and stable
- There is little by way of a market for corporate contro
- The existence of formal rights for employees to influe managerial decisions

- Corporate governance is about promotin corporate fairness, transparency and accountability.
- Corporate Governance means doing everything better to improve relations between companies and their sharehold

OECD on Corporate Governar

- Corporate governance is based on princi such as conducting the business with all integrity and fairness, being transparent regard to all transactions, making all the necessary disclosures and decisions.

- Rights and equitable treatment of shareholders
- Interests of other stakeholders
- Role and responsibilities of the board
- Integrity and ethical behavior
- Disclosure and transparency

A Historical Perspective of Corpora Governance

- The seeds of modern corporate governan were probably sown by the Watergate sc in the United States.
- Cadbury Committee Report in the Unitec Kingdom (1992)
- Recommendations of the National Assoc of Corporate Directors of the US (1995)

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- After Enron and Worldcom failures
- On 21 August 2002, the Department of Company Affairs (DCA) under the Ministr Finance and Company Affairs appointed Committee to examine various corporat governance issues.

Issues in Corporate Governan

- Duties of Directors
- Composition and Balance of the Board
- Remuneration and Reward of Directors
- Reliability of Financial Reporting and External Auditors
- Board's Responsibility for Risk Management ar Internal Control
- Shareholders' Rights and Responsibilities
- Corporate Social Responsibility and Business E

Relevance of Corporate Governance

- Corporate governance (CG) is a set of systems, princip
processes, about how companies are directed and co
- It regulates the way boards manage the running of a c
by its executives, and how board members are accoun
shareholders and the company.
- This has a direct influence on company's attitude,
accountability and responsibility, towards all stakehol
including employees, shareholders, and customers ali

Cont..

- Superior CG plays a fundamental role in strengthening the integrity and efficiency of fi markets.
- Inadequate corporate governance however undermines a company’s potential and at wor leads to financial difficulties and even may res fraud.
- Well governed companies usually outperform companies and are able to attract new investo whose support can help to finance further gro

Theoretical basis for Corporate Governance

- The fundamental theoretical basis of corporate governance is agency costs.
- In a limited liability company structure a number of investors provide the risk cap They are called shareholders, the deeme owners of the company.
- They delegate the power to manage the company to board of directors.
- Principal-agent relationship.

- Core of the Corporate Governance – Ethi
  Conduct of Business.
- Unless the corporations adopt and
  demonstrate ethical conduct and act in t
  best interest of its various stakeholders ,
  will not be able to succeed.

Obligation to Society

- A corporation is a creation of law as an association of persons forming part of th society in which it operates.
- Its activities are bound to impact the soc as the society's values would have an im on the corporation.

Cont..

- National Interest
- Political non-alignment
- Legal compliance
- Rule of law
- Honest and ethical conduct
- Corporate Citizenship
- Ethical behaviour
- Social concerns
- CSR
- Environment friendliness

Cont..

- Healthy and safe working environment
- Competition
- Trusteeship
- Accountability
- Effectiveness and efficiency
- Timely responsiveness
- Corporations should uphold the fair nam the country

Obligations to Investors

- ❖ The investors as shareholders and provi
of capital are of paramount importance t
corporation.
- ✓ Towards shareholders
- ✓ Measures promoting transparency and informed shareholder participation
- ✓ Transparency
- ✓ Financial reporting and records

Obligation to Employees

- Fair employment practices
- Equal opportunities employer
- Encouraging whistle blowing
- Humane treatment
- Participation
- Empowerment
- Equity and inclusiveness
- Participative and collaborative environm

Obligation to Customers

- Quality of products and services
- Products at affordable prices
- Unwavering commitment to customer satisfaction

Managerial Obligation

- Protecting company’s assets
- Behaviour towards govt agencies
- Control
- Consensus-oriented
- Gifts and donations
- Role and responsibilities of corporate board ar directors
- Direction and management must be distinguis
- Managing and whole-time directors