CORPORATE GOVERNANCE BEST PRACTICES IS IMPERATIVE FOR LONG TERM GROWTH AND SUSTAINABILITY OF BUSINESS

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ABSTRACT

This paper studies about the imperative best practices of corporate governance and its growing importance in the business environment. Corporate governance is about promoting corporate fairness, transparency and accountability that facilitates long-term growth and sustainability of the business. As leading companies evolve toward an integrated governance, risk, and compliance model, they design sophisticated methods for tracking overall compliance performance. They continually improve their ability to anticipate, detect problems, and take preventive measures in time, in order to keep pace with the ever-changing legal and regulatory environments. Corporate Governance has, thus, become very important for companies to perform and remain in competition in this era of liberalization and globalization.

Keywords: Board of Directors, Corporations Governance, Code Of Conduct, Corporate Excellence, Technology.

"Corporate Governance is the inalienable right of the shareholders as the true owner of the corporation and of their own role as trustees on behalf of the shareholders."

- N.R. Narayana Murthy

I. INTRODUCTION

Corporate governance has become imperative attribute to stimulate profitability, growth and long-term sustainability of business. In present scenario, many countries are facilitating adoption of corporate governance best practices voluntarily. In this century this tendency is gaining momentum because in today's highly competitive global markets, to have good management is not only essential but also important. Organizations also need governance of outstanding quality implemented by a professional board of directors. The most successful companies in developed countries operate under board best practices codes which include guidelines aimed at improving business management quality to ensure greater efficiency and effectiveness, integrity, accountability and transparency incorporate administration and management. Thus, this paper highlights key best practices for successfully integrating management and oversight of governance, risk, and compliance processes.

All over the word, corporate governance codes are constantlybeing revised. A number of financial irregularities across the globe have made regulators to think and develop new mechanisms to ensure transparency, accountability and integrity. In India, corporate governance codes are now being amended after reaching on consensus and dialogue among the practitioners and regulators.

In the last decade of liberalization the world has observed series of scams like Harshad Mehta scam, Bhansali scam, vanishing company scam, Teak Equity scam. Ketan Parekh scam, the UTI scam and none other than Sattyam. These scams represent the loopholes existing in the legal environment as well as point out the role of regulatory authorities. Enron perhaps is the classic example in this regard.

In 2007 world economy experienced the worst financial crisis according to eminent economists, since the Great Depression of 1930. As a result, many key businesses failed, decrease in economic activity and bank solvency was observed,and crises in consumer wealth losses on the global stock markets, mergers acquisition and bailouts are some of the major effects of this credit crisis globally were experienced. Specially, the banking sector had to face major issues caused by the over extension to credit.

On the basis of experiencing these scams which are rising day by day, the need for better corporate governancehas become essential to protect the interest and faith of public at large.

II. LITERATURE REVIEW

"Corporate Governance is blend of law, regulation and appropriate voluntary private sector practices, which enable the corporation to attract financial and human capital, perform efficiently, and perpetuate itself by generating long-term economic value for its shareholders while respecting the interests of stakeholders and society as a whole."

-World Bank

According to Sir Adrian Cadbury Committee (appointed by the Financial Reporting Council of London Stock Exchange, U.K), "It is the system by which companies are directed and controlled. It specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs".

It has been rightly said by James D. Wolfensohn, Former President of World Bank, "Corporate Governance is about prompting corporate fairness, transparency and accountability".

The Institute of Company Secretaries of India (ICSI) has defined Corporate Governance as "the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders".

In India, since the mid-1990s, several major corporate governance initiatives have been launched. For the first time was by the Confederation of Indian Industry (CII), India's largest industry and business association, which came up with the first voluntary code of corporate governance in 1998. The second initiative was by the SEBI, now which is as Clause 49 of the listing agreement. The third attempt was the Naresh Chandra Committee, which has submitted its report in 2002. The fourth was again by SEBI — the Narayana Murthy Committee, which has also submitted its report in 2002. Based on few of the recommendations of this committee, SEBI

revised Clause 49 of the listing agreement in August 2003. But, SEBI withdrew the revised Clause 49 in December 2003, and currently, the original Clause 49 is in force.

Furthermore, good corporate governance is necessary for the development of a competitive private sector that in the long term is able to attract and retain the capital needed for investment and generate better managed organizations with a significant positive impact on the economic growth and the quality of life of the country.

Corporate governance, therefore, is now an established concept and required further encouragement and support of the top level management of organizations as well as the official machinery all over the world.[3]

2.1 Attributes for an effectiveBoard

The Board of the company is, considered to be independent of the management and possess experience and expertise in respect to provide good governance. It has been observed that best practices in corporate governance begin with a commitment by the board of directors and senior managers to elevate the discipline to a high strategic priority. Its members must have following qualities:

- Profound knowledge and enough experience in the field of the administration of companies and well aware of the threats and opportunities of the business environment.
- Proper guidelines regarding their functions and responsibilities.
- Must understand the importance of customer loyalty and their level of satisfaction
- Adequate information of the globalization and regional differences existing in the business.
- Strong knowledge of the Information system
- Adequate knowledge of legal rules and regulations.
- Excellent teamwork to meet the growing competition.
- Ability to challenge the Executive Management when required and at the same time avoiding confrontation and interference in their normal course of action.

An effective board plays an integral role in the strategic planning process. Management develops the strategic plan, while the board reviews and approves it. Directors require a host of both internal as well as external information to effectively review and evaluate strategy. The board must have sufficient time to discuss the strategic plan openly and regularly with the CEO and in the executive board sessions so that all board members understand it well enough to keep track its progress in an informed manner.[3]

There should be a set of corporate guidelines for the board so that they can provide the framework for the governance of the company and the guidelines should be reviewed at least annually. The guidelines help both the board and individual directors, by elaborating on the board's and directors' basic duties, so that they can understand their functions and responsibilities and the general boundaries within which they have to operate. For better performance the board must conduct a self-evaluation at least annually to determine whether it and individual directors are functioning effectively. In fact, the ethical role of directors is crucial in implementing corporate best practices in the organization.

III. WELL INFORMED BOARD

The quality and timeliness of information is essential for effectiveness of the board directors. It is equally important to develop both formal and informal communication and information channels and cross-linkages with the full support of the CEO along with a strong information framework carrying a thorough briefing of the

annual plan and an overview of the significant risk or reward elements involved with the plan to actively monitor it continuously during the year.

Management must also keep updated about the new developments to the directors, such as expansion and diversifying plans, key acquisitions, new products, etc. There must be adequate feedback system between management and the board. The board must develop mechanisms to effectively and continuously monitor the company's progress against the stated goals.[4]

The board should have number of methods to measure the successful accomplishment of the set goals. Also a strategic performance measurement system should be established that must include measures both financial (quantitative) and nonfinancial (qualitative) measures. New methods must be devised to collect important information. In this regard many companies are already collecting much of the data they require to keep track strategic performance measurements.

Furthermore, an effective professional Board contributes with recommendations and makes sure that the executive management has adequate strategies for taking proper actions and getting the desired results in the corporate world. But for this, the Board members must have a solid formation and lengthy experience in different areas of the administration of companies and profound knowledge of the threats and opportunities of the environment.

IV. ACCOUNTABILITY AND EVALUATION SYSTEM

One of the essential elements of board effectiveness is accountability and responsibility. While shareholders elect the directors, they likely lack sufficient knowledge of the inner workings of the boardroom to properly perform evaluation. The evaluation for all the directors, management, and employees should be done on an annual basis. Furthermore, the company if wants to create value than it has to adopt the principles of good governance in spirit rather than the letter. This is something that cannot be achieved by enforcing rules and regulations or monitoring but has to come from within.

Moreover, corporate governance is not only limited to a company's obligations towards shareholders but also includes its obligations towards all stakeholders. Thus, nowadays, boardroom discussions are focused on issues of governance, accountability and disclosure.

In this regard, a good practice example is the Infosys annual report of 2005-06 that presents a comprehensive discussion on major risks facing the company. These include risks like client and geographic concentration, employee retention, foreign exchange movements, etc. One can easily imagine each of these risks having clear action plans and metrics within the company that help in their management.

According to a poll conducted by **KPMG**, the respondents were asked to rate factors that may result in the improvement of corporate governance practices in companies. It has been observed that, in order of importance, improvement in financial and other disclosures and improvement in risk management and oversight processes received highest votes i.e. 24 percent each.

Furthermore, 20 percent of the respondents believe in enhancing the powers of independent directors, 17 percent of the respondents believe in separation of the position of chairman and CEO and 15 percent of the respondents believe in strengthening minority shareholders' rights.[5]

ISBN : 978-93-86171-09-2

V. AUDIT COMMITTEES ROLE AND RESPONSIBILITIES

The audit committee plays a critical role, standing at the intersection of management, independent auditors, internal auditors, and the board of directors. In the wake of the corporate scandals, the new challenge for audit committees will be to fulfill all of the new duties and responsibilities assigned it under legislation and exchange rules and to shift to a more proactive oversight role. Therefore, audit committees are required to ensure accountability on the part of management. Regarding this the internal and external auditors, make certain that all the groups involved in the financial reporting and internal controls process understand their duties and responsibilities, and safeguard the overall system of the financial reporting and internal controls processes.

The general perception is that the auditors have not been cautious and vigilant enough in revealing the irregularities and misuse of authority by CEO and bringing them before the board and shareholders in time, which has resulted in huge losses to the companies in particular and public in general.[2] The annual reports disclosure in many cases have not been done fairly and hence failed to represent the true picture of the company. In this reference the Price water audit company' has been questioned in the Sattyam case.

ArunShourie in his book *Courts and their Judgments* has rightly said that "the problem in India was that no profession was willing to introspect, to cleanse and correct its own infirmities. If only our charted accountants had been doing their job, would so many banks have collapsed? Have the venerable CAs or their institutions been reflecting on this?" [1]

Today customers and the emerging market are both key elements in the success of any organization which is analyzed on the basis of customer satisfaction and also their faith and trust in the system. For this the audit profession and the industry should accept the challenge of evolving a framework where there is a convergence of the objectives between:

- Enterprise governance and
- Cost audit mechanism.

Cost audit is a mechanism developed to verify that the resources have been utilized adequately and recognize the processes that result in resource wastage. In order to overcome this zero defect, six sigma and many other mechanisms are becoming relevant in the manufacturing companies.[1]

Thus, it has become important to develop and adopt a range of best practices methodologies, such as scorecard etc. effectively. The generalization of governance practices and its application in companies operating in emerging economies will definitely be of great value to improve the competitive strength, both at the regional level as well as in the complex and the dynamic global market. At the same time, work culture is necessary but not sufficient to ensure good corporate governance. The right structures, policies and processes must also be in place.

VI. CORPORATE GOVERNANCE LEGISLATION IN INDIA

Introduction of liberalization and globalization has brought in new avenues for Indian companies. Today the Indian companies not only aspire to take their businesses and brands global, but also face the challenge to step up the governance and ethical processes to match global best practices. This move is easier to achieve if the approach to these processes transforms from one of compliance to that of value creation and sustainability.

In India, **SEBI** took the initiative and appointed the Kumarmangalam Birla Committee in 1999 to recommend the system of corporate governance. The committee was based on the Cadbury Committee report on Corporate Governance of the UK, the OECD Committee Report and other similar reports of USA. Lord Cadbury has rightly observed that the report of SEBI is a pioneer in the field of corporate governance, and is one of the most comprehensive reports on corporate governance in the world.

Thus, the committee was constituted by SEBI, to evaluate the adequacy of existing corporate governance practices and their further improvements so as to improve their effectiveness. The important recommendations made by the committee emphasized on duties and responsibilities of the audit committees; fair financial disclosures, that includes party transactions and proceeds from initial public offerings; making mandatory for the corporate executive boards to assess and reveal business risks in the annual reports of the company , imposing responsibilities on the boards to adopt formal codes of conduct; defining the status of the nominee directors; and stock holder approval and defining the compensation paid to the non-executive directors.

To further the process of reforms, the SEBI appointed Narayana Murthy Committee on Corporate Governance. The committee reviewed the progress in this regard and made further suitable recommendations. The recommendation of this committee has been in harmony with the earlier Birla Committee Report.

SEBI accepted the Birla committee recommendations and described it as the most comprehensive report and the basic document on the corporate governance. However, it needs to be revised and updated continuously to meet the challenges of the ever-changing environment.[1]

In this regard, the Companies Act, 2013 has defined and raised the bar for the Boards in India. This Act has tried to introduce certain new concepts like - women directors on the Boards to bring in gender diversity, enhanced disclosure norms, small shareholder director, performance evaluation of Boards and directors and mandating corporate social responsibility. It has also introduced the possibility of class actions; including internal financial controls and risk management as a part of oversight of the Boards and highlightingon the role of the Independent Directors with objective of enhancing the protection for minority shareholders, provide for investor protection and activism, a better framework for insolvency regulation and thus support the foundations of good governance in Indian companies

VII. CONCLUSION

The best practices on governance issues are an evolutionary and continuing process in this complex and dynamic global market. Best governance practices and a responsible corporate behavior contribute to superior long-term performance and achieving excellence in the emerging economies. In fact, it helps to attract the best customers, investors, business partners and employees, apart from enhancing reputation and brand value.

Furthermore, a strong structure, process and diligent practice of corporate governance is imperative to inspire investor confidence, expand the private sector, rouse economic growth, and reduce opportunity for fraud thus creating a healthy and robust investment climate

It has been rightly said by, Sir Adrian Cadbury in 'Global Corporate Governance Forum', World Bank, 2000, that "Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society."[11]

Thus, corporate governance practices embody the dual goals of protecting the interests of all stakeholders while respecting the duty of the board and ensures accountability, inculcate integrity and promote long term growth and profitability.

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