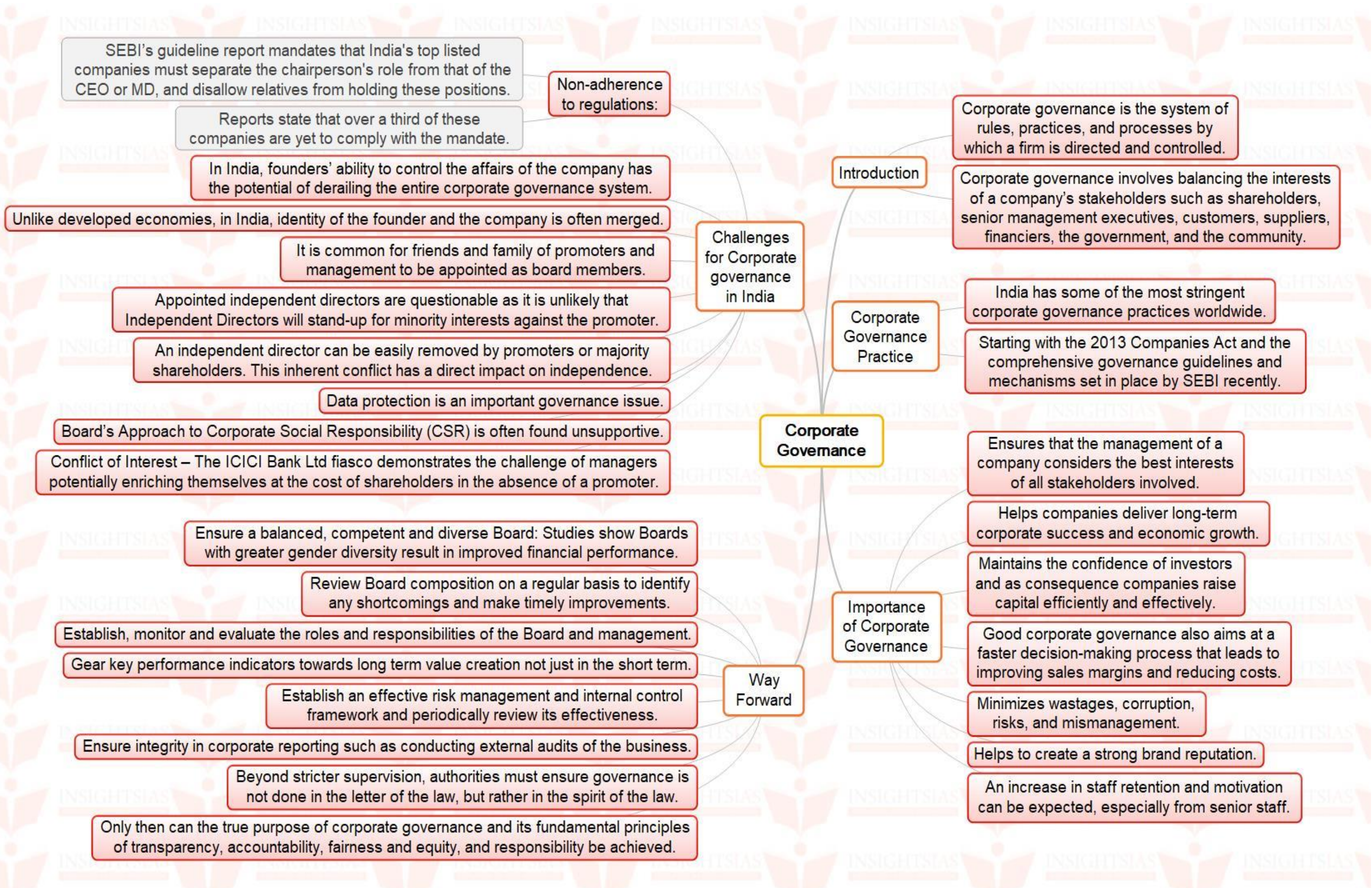

General Studies-4; Topic: Corporate Governance.

Corporate Governance

Introduction

- **Corporate governance** is **the system of rules, practices, and processes by which a firm is directed and controlled**.
- Corporate governance involves **balancing the interests of a company's stakeholders such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community**.

Corporate Governance Practice

- India has some of the most stringent corporate governance practices worldwide.
- Starting with the 2013 Companies Act and the comprehensive governance guidelines and mechanisms set in place by SEBI recently.

Importance of Corporate Governance

- Ensures that the management of a company considers the **best interests of all stakeholders involved.**
- Helps companies **deliver long-term corporate success and economic growth**
- Maintains the confidence of investors and as consequence companies raise capital efficiently and effectively.
- Good corporate governance also aims at a **faster decision-making process** that leads to improving sales margins and reducing costs**.**
- Minimizes wastages, corruption, risks, and mismanagement.
- Helps to create a **strong brand reputation.**
- An **increase in staff retention and motivation** can be expected, especially from senior staff.

Challenges for Corporate governance in India

- **Non-adherence to regulations:**
  - SEBI's guideline report mandates that India's top listed companies must separate the chairperson's role from that of the CEO or MD, and disallow relatives from holding these positions.
  - Reports state that over a third of these companies are yet to comply with the mandate.
- In India, founders' ability to control the affairs of the company has the potential of derailing the entire corporate governance system.
- Unlike developed economies, in India, identity of the founder and the company is often merged.
- It is common for friends and family of promoters and management to be appointed as board members.
- Appointed independent directors are questionable as it is unlikely that Independent Directors will stand-up for minority interests against the promoter.
- An independent director can be easily removed by promoters or majority shareholders. This inherent conflict has a direct impact on independence.
- Data protection is an important governance issue.
- Board's Approach to Corporate Social Responsibility (CSR) is often found unsupportive.
- Conflict of Interest – The ICICI Bank Ltd fiasco demonstrates the challenge of managers potentially enriching themselves at the cost of shareholders in the absence of a promoter.

Way Forward

- **Ensure a balanced, competent and diverse Board**: Studies show Boards with greater gender diversity result in improved financial performance.
- Review Board composition on a regular basis to identify any shortcomings and make timely improvements.
- Establish, monitor and evaluate the roles and responsibilities of the Board and management.
- Gear key performance indicators towards long term value creation not just in the short term.
- Establish an effective risk management and internal control framework and periodically review its effectiveness.
- Ensure integrity in corporate reporting such as conducting external audits of the business.
- Beyond stricter supervision, authorities must ensure governance is not done in the letter of the law, but rather in the spirit of the law.
- Only then can the true purpose of corporate governance and its fundamental principles of transparency, accountability, fairness and equity, and responsibility be achieved.