CORPORATE GOVERNANCE : A CONCEPTUAL FRAMEWORK

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Corporate identities discuss investment planning, tax management and issues pertaining to profits. But with the increasing number of corporate scandals and frauds the growth of the corporate has become the function of good corporate governance. It is the corporate governance through which the confidence of the public could be strengthened. There has been global awakening on this issue and several efforts have been made to frame a moral code of conduct for the corporate. The areas need focus in this regard are Family Firm, Board of Directors, Communication, Codes and Violations, Stakeholders, Financial /Disclosures, CEO's Act, Ethics, etc.

In present liberalized and deregulated economy; weakening of trade barriers, fading out margins, updated consumers and cutthroat competition increasing at the rate of the knots are the realities faced by the corporate world. The to day, are much greater in frequency, intersity & magnitude. Corporte scandals and the corporate frauds, we are witnessing consequent collapses have a lethal effect on the poor. Not only these destroy their life saving and reduces them to penury and desperation they take away their confidence in the markets self. They have no hope to make good their loss. It is a great national loss. It is not only the problem faced by the developing world but the world nations too. Madhav Mehra says "it will be wrong to assume that corporate translucence and opacity is limited only to developing countries. As a recent survey conducted by the Economist and reported in the corporate governance alliance digest (3/3/3) reveals, the developed countries are the worst culprits. In a point count of 0-3 (with 0 being information not there; 1 information there but hidden; 2 information easily found but hard to understand/incomplete; 3 information easily found, understandable and complete) US score is only 0.5 and the UK-1, Germany tops the score with 1.3 with France immediately trailing behind at 1.2 Japan's score is the worst at 0.4. Word wide campaign for transparency is the surset way to bring harmony to this distraught world." The concept corpo-rate governance has attracted attention world wde. Persent days requirement is that corporate should operate within its boarders to expand in such a manner as to provide employment, wealth and safisfaction to improve material standard of living vis-a-vis enhanced social cohesion.

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Appraisal of Initiatives

Mathiesen says, "Corporate governance is a field economics that investigates how to secure/motivate efficient manage-ment 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."

In last decade various organized efforts have been made to address the issue of corporate governance globally, several committees have been instituted (Table-1) to check and improve the behavior of corporate world wide. A series of corporate governance codes have been written in various countries. What we call as corporate governance has succeeded in attracting public interest because of the apparent importance for the economic health of the companies and society in general.

Table-1

Year	Country	Committee
1987	U.S.	Trade way Commission
1992	U.K.	Cadbury Committee
1994	U.S.	Jenkins Committee, commissioned by AICPA
1994	South Africa	King Committee
1994	Canada	Toronto Stock Exchange Committee
1995	Australia	AIMA Committee, commissioned by Australian Investment Management Association
1995	U.K.	Greenbury Committee
1995	France	Vienot Committee
1996	Europe	EASDAQ Rule
1996	Netherlands	Peter Committee
1997	U.K.	Hampel Committee
1997	Belgium	Governance Commission
1999	U.S.	Blue Ribbon Committee
1999	India	Kumar Mangalam Birla Committee by SEBI

Key Issues

Family Firm

In India the governance of majority of the large corporations is in the hands of few wealthy families. These families use control pyramids to effect these powers. It is obvious that such control pyramids make firms vulnerable to a range of serious governance problems. These problems can have adverse macroeconomic effects when they extend across a sufficiently large part of the country's corporate sector.

Board of Directors

Weak, ineffective corporate governance with poor oversight by under-informed, under-focused, or under-competent boards has cost investors very high. Shareholders are increasingly aware of governance risk. According to studies by McKinsey & Co, institutional investors are willing to pay up to a 12-14% premium for well governed companies in North America and Western Europe.

Board of Directors has to take the lead in order to enforce the codes legal and moral as well to ensure good governed corporate. Board should operate effectively and efficiently as an entity. The board should consider and take decisions in an informed way. The executive should be competent enough to drive the business forward. The effect of Cadbury code is to make non-executive directors mandatory and these directors should be of significant calibers and number for their views to carry significant weight in the board's decision.

Communication

Open dialogue is at the heart of corporate citizenship. With wrenching change taking place all around us the corporation has to develop systems of regular communication within the board & between the board, shareholders, management, government, employees, custom, suppliers and the civil society. It is through this dialogue that the corporation will communicate its values, vision, mission and goals and share their financial, environmental and social numbers at regular intervals. It must demonstrate corporation's commitment to all its constitutents' viz. the board of directors, management, employees, shareholders, the government and the other stakeholders and the civil society. Corporations must clarify that they are not only creating value for the corporations but making significant impact on the society by reshaping community values, attitudes and cultures.

Codes and Violations

There should be codes of conduct to regulate the behavior of corporate but revising codes of corporate governance is certainly not the answer. We have a great capacity to beat the codes. Andersen has asserted all along that whatever they did at ENRON or WORLDCOM was within the law and thousands of firms do the same. Again nothing that President Bush has said in the aftermath of so many accounting scandals is new. Plastering over the capitalism's cracks simply won't work. It needs a systemic change which will come only by looking inside and not from outside. It is we who have to change our paradigm from individualism to integration, from tangibles to intangibles, from capital to knowledge, from objects to relationship, from parts to the whole, from domination to partnership, from structures to process, from short-term to long-term, from growth to sustainability, from confrontation to collaboration and from covering up failures to owning them up.

Stakeholders

Shleifer and Vishny say, "Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". Governance is the manner in which power is exercised in the management of national economic resources. Corporate Governance is the manner in which the power of the board room is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maximizing not only shareholders values but creating value for all stakeholders. Stakeholders include investors, depositors, customers, employees and suppliers. It has assumed critical importance due to the globalization of economic and the speed with which capital can move in the era of internet.

Financial Disclosures

In the words of J. Wolfensohn, President, World bank " Corporate governance is about promoting corporate fairness, transparency and accountability". Transparency and accountability are being increasingly recognized as a must for every corporte. A growing tirbe of Chief Executive have realized that trying to outwit markets through a complex array of cross holdings, dubious financial disclosures, rubber stamp boards and disregard of minority shareholders is a receipt for disaster. US President George W Bush says, "My accountability plan also requires CEOs signs a nominal certificate and does so merely on behalf of the company. In the future, the signature of the CEO should also be or her personal certification of the veracity and fairness of the financial disclosures. When you sign a statement, you're pledging your word, and you should stand behind it.

Human Aspect

No business has a license to operate unless it deals with environment in a responsible way. It will be worthwhile to examine the views of one the most successful entrepreneurs in the UK, Anita Raddick, about the financial aspects of Corporate Governancne. She says "Financial governance by the stock-market is obviously not in the best interest of running as busines indicated of social & environmental change." There is no governance that says you should look after each stakeholder that your shareholders should get the most benefits and as a result that customers are hardly considered. Certainly the people that dedicate their lives to an organization-the employees-are not considered in any governance law.

Our focus has been shifted to creating awareness of the importance of good corporate governance. We moved from the traditional line where the purpose of corporate governance is stated to be to create shareholders wealth. We felt that this equation brings on advrsarial approach vis-a-vis other shareholders and need to be changed in the knowledge economy. Wealth in the knowledge economy is created not by the stakeholders or the Board of Directors whose vision admittedly is of overriding importance, but the success and innovation of the employees who never figure in any definition of corporate governance. The corporate governance which says that company is meant only for shareholders and where employee whose equity is no less, have little say, is not corporate governance but corporte greed. The company 's true business is not only to create wealth for the shareholders but also become an instrument of social transformation by ensuring employment, health and social services to the community with which they worked.

In any event the corporate in order to be effective. have to interact with civil society of which indeed they are an integral part. It is, therefore, more appropriate to direct the focus on all aspect of governance and treat corporate governance as part of national movement for overall improvement in good governance.

CEO's Act

The rational market participant is supposed to treat everyone and everything as a means to serve his/her ends. The imperative is simply to achieve the greatest possible satisfaction of our personal preferences. So what is wrong in the CEO paying himself astronomical salary and bonus, while he is sacking the workers in the name of cost cutting and downsizing? Why should the independent director ask awkward questions on company accounts or CEOs pay hike? He gets only a fraction of his remuneration from the compnay in director fees- a lot more comes from the consultancy services provided by his/her private company. Similarly what is wrong in auditing companies flogging their other services to the clients? The fact is that you get ahead as an independent director or an auditor by billing large fees and not by blowing the whistle.

Ethics

The malaise in the governance of corporations is far deeper than what appears on the surface. By feeding on ruthless competition and promoting a culture of winner takes all, capitalism has spawned virulent individualism which has grossly discounted the value system based on ethics. Corporate still use moral language but they do not believe it has any objective foundation. With growing dominance of the markets and emphasis on immediate gain people's behaviour is guided almost exclusively by prudential and not moral consideration. They obey the rules, remain within the law, follow the norms, respect values only if they calculate that these will benefit them personally. They do not accept the validity of moral discipline if it runs counter to their personal objectives. In a policy driven by competitiveness and aimed to enhance the authority of markets, individual action has little to do with ethical behavior.

Conclusion

If the capitalism is to survive, if it is to create wealth, it is absolutely essential that it adopts an inclusive approach to make it sustainable in the long haul. It must incorporate the social and environmental agenda, not as add-ons to a company's economic activities but as an essential and integral, part of business strategy and its processes, to reflect the rapidly changing post-industrial economy. The ultimate aim of good corporate gover-nance must be to make corporations good corporate citizens. Corporate citizenship calls for creating value for the society as a whole and goes well beyond corporate social responsibility or corporate philanthropy.

Focal point of quality or rather of total quality must be maximization of value for all stakeholders i.e. customers, shareholders, employees, investors, creditors and suppliers.

Environmental protection is a continuing responsibility of each company and it is time that the financial aspects of Corporate Governance take into account the principles of environment accounting.

It has been identified corporate governance reform as a tool for attracting the investment developing countries need to fund sustainable economic growth. Sound corporate governance practices contribute to investor and lender confidence, which supports both domestic and foreign investment. The challenge for developing and emerging markets is to craft strategies for reform that build the institutions and capacity that are needed for effective implementation.

Greater transparency will expose bad companies but, just as importantly, protect the reputations of the good ones.

Tougher laws and stricter requirements will help to curb frauds but ultimately, the ethics of business depend on the conscience of business leaders. Business needs men and women of character who know the difference between ambition and destructive greed, between justified risks and irresponsibility, between enterprise and fraud. Everyone in a company should live up to high standards, but the burden or leadership rightly belongs to the chief executive officer. CEOs set the ethical direction for their companies. They set a moral tone by the decisions they make, the respect they show their employees and their willingness to be held accountable for their actions. They set a moral tone by showing their disapproval of other executives who bring discredit to the business world.

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