International Journal on Emerging Technologies **3**(1): 89-91(2012)
ISSN No. (Print) : 0975-8364
ISSN No. (Online) : 2249-3255

Corporate Governance

Sounik Kajal Kumar Dash* and Dr. P. Yesudoss**

** CULC, London*

*** Central Library, SRM University, India*

(Recieved 15 March 2012 Accepted 30 April 2012)

ABSTRACT : Corporate governance is "the system by which companies are directed and controlled". It involves a set of relationships between a company's management, its board, its shareholders and other stakeholders; it deals with prevention or mitigation of the conflict of interests of stakeholders. Ways of mitigating or preventing these conflicts of interests include the processes, customs, policies, laws, and institutions which have impact on the way a company is controlled. An important theme of corporate governance is the nature and extent of accountability of people in the business, and mechanisms that try to decrease the principal–agent problem.

Keywords : Corporate Governance, Corporate Citizenship, Corporate Sustainable.

I. INTRODUCTION

Corporate governance is nothing more than how a corporation is administered or controlled. Corporate governance takes into consideration company stakeholders as governmental participants, the principle participants being shareholders, company management, and the board of directors. Adjunct participants may include employees and suppliers, partners, customers, governmental and professional organization regulators, and the community in which the corporation has a presence.

Because there are so many interested parties, it's inefficient to allow them to control the company directly. Instead, the corporation operates under a system of regulations that allow stakeholders to have a voice in the corporation commensurate with their stake, yet allow the corporation to continue operating in an efficient manner. Corporate governance also takes into account audit procedures in order to monitor outcomes and how closely they adhere to goals, and to motivate the organization as a whole to work toward corporate goals. By using corporate governance procedures wisely and sharing results, a corporation can motivate all stakeholders to work toward the corporation's goals by demonstrating the benefits, to stakeholders, of the corporation's success.

Corporate governance may include :

- Control and direction processes
- Regulatory compliance
- Active ownership and investment in a company

Primarily, though, corporate governance refers to the framework of all rules and relationships by which a corporation must abide, including internal processes as well as governmental regulations and the demands of stakeholders. It also takes into account systems and processes, which deal with the daily working of the business, reporting requirements, audit information, and long-term goal plans.

II. CORPORATE CITIZENSHIP AND SUSTAINABLE BUSINESS

Corporate citizenship— a commitment to ethical behavior in business strategy, operations and culture has been on the periphery of corporate governance and board leadership, linked mainly to corporate reputation. However, in today's globalized and interconnected world, investors, creditors and other stakeholders have come to recognize that environmental, social, and governance responsibilities of a company are integral to its performance and long-term sustainability [1, 2]. Today, these concerns help determine profits. For companies to operate successfully and sustain growth, boards must incorporate these new dimensions into their core decision making processes. The global financial crisis has heightened the need for corporate boards of directors to provide well-informed strategic direction and engaged oversight that stretches beyond short-term financial performance. Doing so prepares companies to more comprehensively address risks, by anticipating potentially adverse impacts on people and the environment and managing tangible and reputational risks (etal 2004). It can also generate wealth by creating shareholder value through an increase in business opportunities and broader access to markets. A new vision of business is emerging— one where a set of core values, encompassing human rights, environmental protection and anti-corruption measures, guide the board's oversight, relationship with management, and accountability to shareowners.

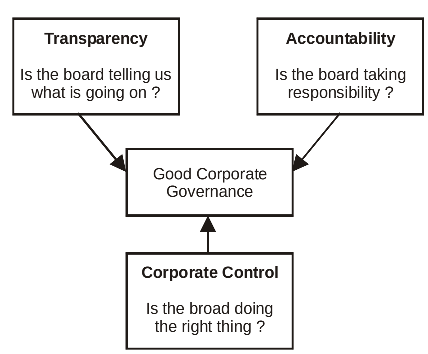

Fig. 1. Corporate function of the board.

III. BOARD RESPONSIBILITY

Today's corporate citizenship defined by a clear call to environmental, social and governance responsibility links directly to three fundamental functions of boards and their directors' duties to the companies and shareowners they serve :

- Protecting stakeholder rights and interests
- Managing risk
- Creating long-term business value

The following sections explain how these aspects link through the OECD Principles and UN Global Compact. The examples of strategies illustrate the business benefits of proactive leadership [4].

IV. PROTECTING STAKEHOLDER RIGHTS AND INTERESTS

The OECD Principles call on businesses to recognize and safeguard stakeholders' rights, including legitimate interests and information needs. These Principles call on boards to be truly accountable to shareowners and to take ultimate responsibility for their firm's adherence to a high standard of corporate behavior and ethics. Effective corporate governance requires due diligence in rallying the support and commitment of the broad network of business stakeholders, including shareowners, employees, customers and communities. If stakeholders are adversely affected by a company's actions, shareowner value will suffer. With the growth in pension and insurance funds and other institutional investors, shareowners are increasingly also company stakeholders, such as employees or customers. Therefore, these groups' needs are increasingly interconnected [5].

The UN Global Compact's ten principles similarly call on boards to address critical dimensions of concern to stakeholders. Boards that recognize the value of a holistic approach to stakeholder engagement, particularly in the environmental, social and governance realms, find that shareowners are similarly committed to such issues [6]. This includes ongoing communication with stakeholders about material concerns, as well as regular disclosure about company performance, ideally linked to periodic financial reporting. Responding to stakeholder concerns can have other direct business benefits:

- Widespread consensus is that the long-term costs of corruption are high for both society and business. Anti-corruption measures can strengthen relationships with stakeholders by building a culture of trust and collaboration.
- When companies enact anti-corruption initiatives that include empowering employees, this in turn can cultivate good reflexes on the part of individuals to address workplace dilemmas.
- Employees who work where their rights and needs are respected tend to be more productive, delivering higher quality work than those who are routinely mistreated. High standards of integrity, transparency and disclosure can be influential in restoring public and investor trust in the private sector. They are also a starting point for ongoing, constructive dialogue with stakeholders, such as communities, who are affected by and can, in turn, help determine a business's performance [7].

V. MANAGING RISK

New understandings of business risk show that boards have a legal and fiduciary responsibility to manage environmental, social and governance risks. Directors need to be informed and prepared to manage these long term concerns alongside typical corporate directives. By addressing and managing these risks effectively, boards can position their businesses to perform well financially and secure a long-term license to operate. By failing to do so, boards can undermine their company's reputation. More and more companies are extending their internal controls to encompass a range of ethics and integrity issues [8, 9]. Many investment managers examine the rigor and quality of these controls as evidence that companies are undertaking good business practices and are well managed :

- Proactively identifying possible human rights concerns allows a business to more effectively address potential risks.
- Initiatives such as the IFC-led Equator Principles a financial industry benchmark used by more than 60 financial institutions worldwide to determine, access and manage social and environmental risk in project financing and the Dow Jones and FTSE4 Good Sustainability Indexes have made it increasingly apparent that socially responsible practices can improve access to financial markets and reduce capital costs [12].
- The competitive advantage of risk management gained through anti-corruption includes ensuring alignment with customer expectations, safeguarding reputation, and meeting demands of ethical investment funds, pensions, and other investors [10].

VI. CREATING BUSINESS VALUE

Core to the role of any board is guiding corporate strategy and creating wealth for shareholders. Many new business opportunities are emerging to address corporate citizenship priorities. Forward-thinking businesses are best placed to benefit. Immediate benefits cited by leading companies include improved reputation, higher employee retention rates, greater productivity, and cost benefits through operational improvements and innovation in products and services. The most effective corporate citizenship and sustainability strategies are led from the top, incorporate a wide range of stakeholder views and are aligned with the company's business priorities. This ensures a more efficient and strategic allocation of resources to these initiatives, which may generate new business opportunities :

- Improved labor practices in supplier operations can translate into improved productivity and reduced reputational risks. Better working conditions improve the efficiency of the supply chain.
- Human rights strategies, such as preventing discrimination in the workplace and promoting gender and ethnic equality

in business processes, have been shown to secure diversity and increase innovation in products and services. A diverse workforce and wider customer base guide development within new markets and previously untapped customer demographics.

- Environmental programs can provide financial benefits, such as reducing operating costs, leading to new markets and technologies, improving employee morale and increasing employee health.
- Good management of environmental, social and governance performance has been shown to strengthen reputation and brand value, important business assets [11].

VII. THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment, and anti-corruption:

Human Rights :

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2 : make sure that they are not complicit in human rights abuses [13].

Labor Standards :

Principle 3 : Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 : the elimination of all forms of forced and compulsory labor;

Principle 5 : the effective abolition of child labor; and

Principle 6 : the elimination of discrimination in respect of employment and occupation.

Environment :

Principle 7 : Businesses should support a precautionary approach to environmental challenges;

Principle 8 : undertake initiatives to promote greater environmental responsibility; and

Principle 9 : encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption :

Principle 10 : Businesses should work against corruption in all its forms, including extortion and bribery [14].

VIII. CONCLUSION

The evolution of the modern public corporation is one of the great developments of the twentieth century. That the evolution of these organisations has gone comparatively unnoticed is perhaps unsurprising: after all, the twentieth century saw the birth and death of two entire systems of political organisation (communism and fascism), ideological conflict between two forms of economic organisation (free market versus socialist centralised planning), and technological advances, from the aero plane to the Internet. These developments have changed the lives of everyone. By contrast, the modern corporation – a form of social organisation designed to achieve economic objectives – evolved gradually from its eighteenth and nineteenth century roots. Its advent did not coincide with any singular event, unlike new forms of political organisation which generally announce themselves with a revolution, a coup or a constitutional convention.

REFERENCES

[1] Aggarwal, Reena (2002), "Demutualisation and Corporate Governance of Stock Exchanges", *Journal of Applied Corporate Finance*, Vol. **15**, 105-113.

[2] Aggarwal, Reena, Allen Ferrell, Jonathan Katz (2007), "U.S. Securities Regulation in a World of Global Exchanges", Discussion paper of the John M. Olin Center's Program on Corporate Governance.

[3] Bagheri, Mahmood and Chizu Nakajima (2004), "Competition and Integration Among Stock Exchanges: the Dilemma of Conflicting Regulatory Objectives and Strategies", *Oxford Journal of Legal Studies*, Vol.**24**, No.1

[4] Balls, Ed (2007), Speech by the Economic Secretary to the Treasury. FSA Regulation Conference. Delivered on April 23, 2007.

[5] Barclay; Michael J. and Terence Hendershott (2003), "Price Discovery and Trading After Hours", *The Review of Financial Studies*, Vol. **16**, No. 4.

[6] Black, Bernard S. (2001), "The Legal and Institutional Preconditions for Strong Securities Markets", *UCLA Law Review*, Volume **48**.

[7] Bloomfield, R. and M. O'Hara (2000), "Can Transparent Markets Survive?", *The Journal of Financial Economics*, Volume **55**.

[8] Brown, Jay Robert. Interview, September 25, 2008.

[9] Cain, Karessa (2003), "New Efforts to Strengthen Corporate Governance: Why Use SRO Listing Standards?" *Columbia Business Review,* 619.

[10] Cavo, Andrew J. (2008), "Weissman v. National Association of Securities Dealers: A Dangerously Narrow Interpretation of Absolute Immunity for Self-Regulatory Organizations." Discussion Paper.

[11] CFA Institute (2007), "Self-Regulation in Today's Securities Markets: Outdated System or Work in Progress?"

[12] Choi, Stephen and Andrew T. Guzman (1998), "Portable Reciprocity: Rethinking the International Reach of Securities Regulation", *Southern California Law Review*, Volume **71**.

[13] Clayton, M. Jorgansen B. and K. Kavajecz (2000), "On the Formation and Structure of International Exchanges", *New York University, Center for Law and Business*, Research Paper No 00-08.

[14]. Coffee, John C. (1999), "The Future as History: The Prospects of Global Convergence in Corporate Governance and Its Implications", *Columbia Law School Center for Law and Economic Studies*. Working Paper 144.