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Corporate Governance : A Suggestive Code

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The growing role of market in the world, i.e. market oriented economy in the later part of the 20th century has led to the spread of capitalism, globalization, liberalization, privatization, demanding efficiency, corporate culture, model code of conduct and business ethnics for the very survival of the corporate world. A large number of scams and frauds that have surfaced during the last three decades have shook the confidence of the inventors. Today the investor community are demanding more transparency in business operations, adequate and qualitative financial and non-financial information and more accountability of company's board and management. So, corporate governance is concerned with the interest of investors and managers and in ensuring that firms are run for the benefits of all classes of investors. In a broader sense, however, good corporate governance - the extent to which companies are run in an open and honest manner - creates overall market confidence, enhances efficiency of international capital allocation and contribute ultimately to the nations' overall wealth and welfare.

A number of Global Committees were set-up to look into the various aspects of the Corporate Governance. These are: (a) Sir Adrian Cadbury Committee on Financial Aspects of Corporate Governance (1992). (b) Mervyn E. King's Committee on Corporate Governance (1994). (c) Greenbury Committee on Directors' Remuneration (1995). (d) CalPERS-Global Corporate Governance Principles (1996). (e) Business Round Table (BRT) - Statement on Corporate Governance (1997). (f) Hampel Committee on Corporate Governance (1998). (g) Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (1999). (h) OECD Principles of Corporate Governance (1999).
(i) CACG Principles for Corporate Governance in Commonwealth (1999).

Corporate governance by definition "is the code of practice by which a firm's management is held accountable to capital providers for the efficient use of assets and it exhibits how its mission, its value and philosophy govern an organization."

Corporate governance is important for the following reasons:-

* It lays down the framework for creating long-term trust between companies and the eternal providers of capital
* It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience and a host of new ideas for their organization.
* It limits the liability of top management and directors by carefully articulating the decision making process.
* It can enhance the shareholder value.
* It can protect interest of shareholders and other stakeholders including customers, employees and society at large.
* Corporate governance can ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.
* It can ensure accountability for performance and to achieve excellence at all levels.
* Good corporate governance can provide corporate leadership of highest standards for others to emulate.

Conclusion:

Thus, we can say that, good corporate governance provides stability and growth to the enterprise and builds confidence among all related stakeholders. Also effective governance reduces perceived risks, consequently reducing cost of capital, leverage competitive advantage in financial market and promotes stability, long-term sustenance of stakeholder's relationship

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