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Corporate Governance: An Over View

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KEYWORDS :

Corporate Governance is concerned with the systems and processes for ensuring proper accountability, probity and openness in the conduct of an organization's business. Thus, it is the process under which the organizations try to hold the balance between economic and social goals and between individual and communal goals. In a nutshell, we can say that the corporate governance framework strives to the efficient use of resources and equally to require accountability for the stewardship of those resources. The basic aim of Corporate Governance is to align as nearly as possible the interests of individuals, corporations and society.

Corporate Governance has three important features, and these are :-

(a) Transparency in operations and decision-making.
(b) Accountability for the decisions taken
(c) Accountability for the stakeholders

For example, it the duty of the Board members to ensure that in the case of shareholders, the investments and the return on investment is safeguarded. This means that the managements of the company has to ensure that the decisions taken by them actually create wealth and do not destroy wealth. In case the net earnings are less than the cost of capital it is considered as net destruction of wealth and can not be considered as good governance.

Indian Banks - Some Sound Practices for Corporate Governance

According to the Organization for Economic Co-operation & Development (OECD), some of the sound corporate governance practices for Banks in India include:-

(a) The Board of a bank should be broad-based with induction of non-executive directors of sufficient caliber and number for their independent views to carry the desired weight in the Board's decisions.
(b) The Board is responsible to establish certain strategic objectives and a set of corporate values for the senior management, employees and the Board members themselves.
(c) The Board should set and enforce clear systems & procedures, lines of responsibility and accountability throughout the bank.
(d) The Board should ensure that senior managers exercise supervisory role with respect to line managers in specific business and activities with great sense of propriety.
(e) The Board should recognize the importance of the audit process, communicate this importance throughout the bank and ensure effective utilization of the work by internal & external auditors.

Recent Steps Taken by Banks in India for Corporate Governance

(a) Induction of non executive members on the Boards
(b) Constitution of various Committees like Management Committee, Audit Committee, Investor's Grievances Committee, ALM Committee etc.
(c) Gradual implementation of prudential norms as prescribed by RBI,
(d) Introduction of Citizens Charter in Banks
(e) Implementation of "Know Your Customer" concept,

The primary responsibility for good governance lies with the Board of Directors and the senior management of the Bank Corporate Governance & Banks

Essential Governance Principles A company should:

*** 1. Lay solid foundations for management and oversight-**
Recognize and publish the respective roles and responsibilities of board and management.

*** 2. Structure the board to add value -**
Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

*** 3. Promote ethical and responsible decision-making -**
Actively promote ethical and responsible decision-making.

*** 4. Safeguard integrity in financial reporting -**
Have a structure to independently verify and safeguard the integrity of the company's financial reporting.

*** 5. Make timely and balanced disclosure -**
Promote timely and balanced disclosure of all material matters concerning the company.

*** 6. Respect the rights of shareholders -**
Respect the rights of shareholders and facilitate the effective exercise of those rights.

*** 7. Recognize and manage risk**-
Establish a sound system of risk oversight and management and internal control.

*** 8. Encourage enhanced performance -**
Fairly review and actively encourage enhanced board and management effectiveness.

*** 9. Remunerate fairly and responsibly -**
Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

*** 10. Recognize the legitimate interests of stakeholders -**
Recognize legal and other obligations to all legitimate stakeholders.

*** 11. Corporate Governance Rating be made mandatory for listed companies.**

Why corporate governance in Indian banks:

The system of corporate governance is important for banks in India because, majority of the banks are in public sector, where they are not only competing with one another but with other players in the banking system as well as in financial services system including Financial Institutions, Mutual Funds and other intermediaries, in a new environment of liberalization and globalization. Further, with restrictive support available from the Govt. for further capitalization of banks, many banks may have to go for public issues, leading to transformation of ownership.

Corporate Governance and day to day management:

Corporate Governance is different from day to day management of a bank, which is the basic responsibility of the operating management i.e. team consisting of the Chief Executive & top management functionaries supported by the operating staff. Corporate governance on the other hand, is to create an environment to help the operating management to enhance the stake-holders' value.

Scope of Corporate Governance :

Corporate governance covers a variety of aspects such as protection of shareholders' rights, enhancing the shareholders' value, issues concerning the composition and role of the Board of directors, deciding the disclosure requirements, prescribing the accounting systems, putting in place effective monitoring mechanism etc.

Present management structure of public sector banks in India :

The present structure includes Board of Directors (having Govt., RBI and shareholders nominees), Management Committee (having Govt. and RBI nominees), Audit Committee of the Board (having responsibility of ensuring the efficacy of the entire internal control and audit functions) and other advisory committees constituted by the Board. The Chairman is assisted by one whole time director and both of them are appointed by the Govt.

Parameters to judge the standard of corporate governance:

There are a number of parameters on the basis of which the level of corporate governance can be judged for a banking organization. It includes the suggested model code for best practices, preferred internal system, recommended disclosure requirements including the level of transparency, role of Board of directors and committees, reporting system to the Board of directors, policies formulated by the Board and monitoring of performance.

Important aspects of corporate governance :

The following aspects require special mention while judging the standard of corporate governance in a banking institution:

a: Constitution of the Board of directors :
b: Transparency
c: Policy formulation
d: Internal controls
e: Committees of the Board

Developments concerning Corporate Governance in Indian banking :

By fixing prudential standards, the regulators can improve the corporate governance and RBI has already taken a no. of steps during the recent years to enhance the usefulness of good corporate governance. However, there is lot, which the banks themselves have to do, since adherence to prudential norms is the minimum level of compliance and banks have to achieve higher standards for good governance. The success of corporate governance lies in minimizing the regulatory norms and adoption of voluntary codes.

Corporate Governance in Indian Banks

Although the subject of corporate governance has received a lot of attention in recent times in India, corporate governance issues and practices by Indian banks have received only a scanty notice. The question of corporate governance in banks is important for several reasons:

First, banks have an overwhelmingly dominant position in developing the economy s financial system, and are extremely important engines of growth.

Second, as the country's financial markets are underdeveloped, banks in India are the most significant source of finance for a majority of firms in Indian industry.

Third, banks are also the channels through which the country's savings are collected and used for investments.

Fourth, India has recently liberalized its banking system through privatization, disinvestments and has reduced the role of economic regulation and consequently managers of banks have obtained greater autonomy and freedom with regard to running of banks.

This would necessitate their observing best corporate practices to regain the investors' confidence now that the government authority does not protect them anymore.

Corporate governance in banks has assumed importance in India post-1991 reforms because competition compelled banks to improve their performance.

Even the majority of banks and financial institutions, owned, managed and influenced by the government with neither high quality management nor any exemplary record of practicing corporate governance have realized the importance of adopting better practices to protect their depositors and the banking public.

The last few years have seen some major scams and corporate collapses across the globe, be it Enron, Arthur Anderson or WorldCom. All these events have made stakeholders realize the importance and urgency of good corporate governance. People are concerned how companies are being managed; after all it's the public money/investment which is at stake in most of these companies. International organizations like IMF, WTO and World Bank are also insisting on transparency. Efforts are being made to have a common set of disclosure policies and norms. All this has moved corporate governance and transparency up the public agenda.

New standards for corporate governance have now emerged and companies will have to change their behavior and values in accordance with these standards. The new standards include Independent directors, external auditors, rotation of auditors, proper succession planning among others. In this era of globalization and liberalization, market forces play a crucial role. Liberalization in emerging economies has made access to foreign funds easier. Availability of foreign funds will lower the cost of capital. All companies will like this to happen, but the international lenders will be careful that the companies they lend to follow international norms and good corporate governance. These lenders will demand transparency. Also, with the growth of MNCs, these companies, which operate in different parts of the globe will need to maintain and adopt international standards to develop and maintain an international reputation. These factors will force companies to modify their behavior and values to meet the norms of corporate governance.

Corporate governance against the backdrop of globalization has become a delicate and onerous take for survival as well as for seizing the opportunities. Good corporate governance cascades form a set of core values that need to be instilled at all levels of the organization. The quality of governance will become one of the key tests and one of the major drivers of shareholder value. Better governance would facilitate easier access to capital from domestic market. A transparent regulatory framework and better disclosure systems are crucial for attracting foreign investors as well. In the new environmental context, corporate governance is no longer a luxury but a necessity. There is a gap between precept and practice of corporate governance. While there are enough examples of inadequate corporate governance, examples of good corporate governance are few.

Conclusion:

Corporate governance extends beyond corporate law. Its objective is not mere fulfillment of legal requirements but ensuring commitment on managing transparently for maximizing shareholder values. As competition increases, technology pronounces the deal of distance and speeds up communication, environment also changes. In this dynamic environment the systems of Corporate Governance also need to evolve, upgrade in time with the rapidly changing economic and industrial climate of the country.

Finally the key lesson for us to learn are that Regulations and Policies are only one part of improving governance. Existence of a comprehensive system alone cannot guarantee ethical pursuit of shareholder's interest by Directors, officers and employees. Quality of governance depends upon competence and integrity of Directors, who have to diligently oversee the management while adhering to unreachable ethical standards. Strengthened systems and enhanced transparency can only further the ability. Transparency about a company's governance process is critical. Implementing Corporate Governance structures are Important but instilling the right culture – work culture is Most Essential.

Corporate Governance in the Public Sector cannot be avoided and for this reason it must be embraced. But Corporate Governance should be embraced because it has much to offer to the Public Sector. Good Corporate Governance Good Government and Good Business go hand in hand.

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