The OECD Principles of Corporate Governance have come an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. The current vogue among policy makers for corporate governance reform, the related interest in reducing corruption and cronyism in business affairs, is primarily grounded in economics and belief in the allocative efficiency of free markets. As demand for investment funds increases in developed and developing nations, and barriers to the free flow of capital fall, policy makers have come to recognize that corporate governance is relevant to the ability to attract capital. They also realize that weak corporate governance systems, together with corruption and cronymism, distort the efficient allocation of resources, undermine opportunities to compete on a level playing field and ultimately hinder investment and economic development.

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The OECD Principles are organized into six broad categories:

- ensuring the basis for an effective corporate governance framework
- rights of shareholders and key ownership functions
- equitable treatment of shareholders
- role of stakeholders
- disclosure and transparency
- responsibilities of the board

These Principles form the basis for the 2003 White Paper on Corporate Governance in Asia. The Principles represent a consensus roadmap by Roundtable participants which adapts implementation of the Principles to the specific conditions of Asia. At the same time, when the OECD Principles were revised in 2004, Asian Roundtable experiences made an important contribution to the revision. The 2006 Methodology for Assessing Implementation of the OECD Principles of Corporate Governance underpins the dialogue on implementation of the Principles and provides a framework for policy discussions. In 2009, the OECD launched an ambitious action plan to address weaknesses in corporate governance that were revealed by the 2008 financial crisis.

Corporate Governance – What it is

Within a dispersed ownership structure, corporate governance is a process affected by legal, regulatory, contractual, and market-based mechanisms and best practices to create substantial shareholder value while protecting the interests of other shareholders. In a capital structure where there is a concentrated ownership and a small group of shareholders, corporate governance should ensure alignment of the interests of controlling shareholders with those of minority or individual shareholders.

Corporate governance has been a central issue in developing countries long before the recent spate of corporate scandals in advanced economies made headlines. Indeed corporate governance and economic development are intrinsically linked. Effective corporate governance systems promote the development of strong financial systems – irrespective of whether they are largely bank-based or market-based – which, in turn, have an unmistakably positive effect on economic growth and poverty reduction.

There are several channels through which the causality works. Effective corporate governance enhances access to external resources which in turn stimulate economic growth and development. Economic growth and development ultimately reduce poverty, enhance well-being and improve the social and political stability of societies. Therefore, promoting effective corporate governance is an important strategy for the sustainable development and poverty reduction goals of the international community.
financing by firms, leading to greater investment, as well as higher growth and employment. The proportion of private credit to GDP in countries in the highest quartile of creditor right enactment and enforcement is more than double that in the countries in the lowest quartile. Poor corporate governance also hinders the creation and development of new firms.

The term “corporate governance” is susceptible of both narrow and broad definitions. Narrowly defined, it concerns the relationships between corporate managers, directors and shareholders. It can also encompass the relationship of the corporation to stakeholders and society. More broadly defined still, corporate governance encompasses the combination of laws, regulations, listing rules and voluntary private sector practices that enable the corporation to attract capital, perform efficiently, generate profit, and meet both legal obligations and general societal expectations. His definitional range underscores the reality that corporate managers, directors and investors all function within a larger business and legal environment that shapes behaviour. But no matter what the definition, at its heart corporate governance concerns the means by which a corporation assures investors that it has well-performing management in place and that corporate assets provided by investors are being put to appropriate and profitable use. In sum, corporations contribute to economic growth and development, which lead to improved standards of living and poverty alleviation, which in turn should lead to more stable political systems. Corporate governance is important because the quality of corporate governance impacts.

Corporate Governance - Effectiveness
Over the last two decades, corporate governance has attracted a great deal of public interest because of its apparent importance for the economic health of corporations and society in general. Corporate governance practices vary across nations and firms, and this variety reflects not only distinct societal values, but also different ownership structures, business circumstances and competitive conditions. Corporate governance covers a large number of distinct concepts and phenomenon as we can see from the definition adopted by Organization for Economic Cooperation and Development (OECD).

In developed countries, the discussion of corporate governance improvement tends to assume in place well-developed and well-regulated securities markets; laws that recognise shareholders as the legitimate owners of the corporation and require the equitable treatment of minority and foreign shareholders; enforcement mechanisms through which these shareholder rights can be protected; securities, corporate and bankruptcy laws to prevent bribery that enable corporations to transform. Many developing and emerging market nations have not yet fully developed the legal and regulatory systems, enforcement capacities and private sector institutions required to support effective corporate governance. Therefore, corporate governance reform efforts in these nations often need to focus on the fundamental framework.

In April 1998 an influential report detailed the common principles of corporate governance from a private sector viewpoint. The OECD Business Sector Advisory Group on Corporate Governance, chaired by renowned governance expert Ira M. Millstein, focused on “what is necessary by way of governance to attract capital.” According to the Millstein Report, government intervention in the area of corporate governance is likely to be most effective in attracting capital if focused on four essential areas:

- Ensuring the protection of shareholder rights, including the rights of minority and foreign shareholders, and ensuring the enforceability of contracts with resource providers (Fairness);
- Requiring timely disclosure of adequate, clear and comparable information concerning corporate financial performance, corporate governance and corporate ownership (Transparency);
- Clarifying governance roles and responsibilities, and supporting voluntary efforts to ensure the alignment of managerial and shareholder interests, as monitored by boards of directors (Accountability); and
- Ensuring corporate compliance with the other laws and regulations that reflect the respective society’s values (Responsibility).

A Roadmap for improving Corporate Governance infrastructure
The common policy objectives and a practical reform agenda, with six priorities to support the development of an effective corporate governance framework.

1. Public and private sector institutions should continue to raise awareness among companies, directors, shareholders and other interested parties of the value of good corporate governance.
2. All jurisdictions should strive for effective implementation and enforcement of corporate laws and regulations.
3. Roundtable economies should work towards full convergence with international standards and practices for accounting, audit and non-financial disclosure. Where full convergence is not immediately possible, divergences from international standards and practices (and the reasons for these divergences) should be disclosed by standard setters; company financial statements should repeat or reference these disclosures where relevant to specific items.
4. Boards of directors must improve their participation in strategic planning, monitoring of internal control systems and independent review of transactions involving managers, controlling shareholders and other insiders.
5. The legal and regulatory framework should ensure that non-controlling shareholders are protected from exploitation by insiders and controlling shareholders. Governments should intensify their efforts to improve the regulation and corporate governance of banks.

Corporate Governance and Transparency
The Roundtable sees progress made in the area of disclosure and transparency as a significant achievement over the last decade. Progress can be observed with respect to convergence with international standards, a higher degree of disclosure, stronger institutions and greater professional accountability, and technological advancement, thus going a long way towards fulfilling one of the 2003 White Paper’s six key priorities.

Convergence with international standards
All Asian Roundtable economies are in the process of adopting International Financial Reporting Standards (IFRSs) as the national accounting standard. The adoption dates vary with India and Korea potentially adopting IFRSs in 2011. Other economies look set to follow. International Standards on Auditing have already been implemented by a number of economies: Hong Kong, China; Malaysia; Philippines; and Singapore. Others are following suit. Consolidated financial reporting as well as quarterly reporting is now required for listed companies in most economies. Annual reports are to include essential non-financial information such as information on corporate governance (given that most country codes are comply-or-explain), management discussion and analysis, and ownership structures. Rules regarding disclosure of price-sensitive information are also progressing.

Stronger institutions and greater professional accountability
Asian Roundtable economies have taken a number of institutional initiatives to strengthen financial oversight. In 2006, Chinese Taipei amended the Securities and Exchange Act in order to impose stricter standards of liability upon those...
Financial information prepared in accordance with high-quality foreseeable risk factors to monitor their investment. Results -- as well as information about corporate objectives and performance of the company -- its financial and operating results -- that investors and shareholders need information about the filing of financial statements. Transparency recognizes Singapore have already implemented XBRL-enabled systems for transmitting company financial information in numerous participating jurisdictions. XBRL is an agreed, standardised format to express financial reporting and allows easy exchange of information. China, India, Korea and Singapore are also gradually becoming more user-friendly and available in English. eXtensible Business Reporting Language (XBRL) is set to become the standard way of recording, storing and transmitting company financial information in numerous participating jurisdictions. XBRL is an agreed, standardised format to express financial reporting and allows easy exchange and modeling of information. China, India, Korea and Singapore have already implemented XBRL-enabled systems for the filing of financial statements. Transparency recognizes that investors and shareholders need information about the performance of the company -- its financial and operating results -- as well as information about corporate objectives and material foreseeable risk factors to monitor their investment. Financial information prepared in accordance with high-quality standards of accounting and audit should be subject to an annual audit by an independent auditor. This provides an important check on the quality of accounting and reporting. Of course, accounting standards continue to vary widely around the world. Internationally prescribed accounting standards that promote uniform disclosure would enable comparability, and assist investors and analysts in comparing corporate performance and making decisions based on the relative merits.) Information about the company's governance, such as share ownership and voting rights, identity of board members and key executives and executive compensation, is also important to potential investors and shareholders and is a critical component of transparency.¹⁰

Conclusion

With the recent spate of corporate scandals and the subsequent interest in corporate governance, a plethora of corporate governance norms and standards have sprouted around the globe. The Sarbanes-Oxley legislation in the USA, the Cadbury Committee recommendations for European companies and the OECD principles of corporate governance are perhaps the best known among these. But developing countries have not fallen behind either. Well over a hundred different codes and norms have been identified in recent surveys and their number is steadily increasing. India has been no exception to the rule. Several committees and groups have looked into this issue that undoubtedly deserves all the attention it can get.

Finally, one can expect the good corporate governance when there is presence of Transparency and Disclosure. But even having all these concepts in the administration of corporations still there is much difficulties are there. It is a big task that how to overcome from these problems. According to our views, by strengthening much more and effective implementation of existing legislations it may be possible to overcome the problems.

REFERENCE