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Paper: Corporate Laws and Governance

UNIT -IV: Corporate Governance- I

Topic: Corporate Governance - Definition, benefits, Scope and Benefits

Lecture: 14

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Corporate Governance - Definition, Scope and Benefits

What is Corporate Governance?

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing.

Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market- oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization are significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights.

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors’ confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
6. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
7. It helps in brand formation and development.
8. It ensures organization in managed in a manner that fits the best interests of all.

Features of Corporate Governance - Characteristics

The characteristics or features of corporate governance are listed below.

1. Transparency

2. Protection of shareholders rights
3. Accountability
4. More Power to CEO
5. Based on Ethics
6. Universal Application
7. Systematic

1. Transparency: This means that the Board of Directors must release all relevant information to the stakeholders. They must show all the necessary financial and operational data to the stakeholders. They must not hide any important information or maintain any secrecy.
2. Protection of Shareholders' Rights: The Board of Directors must protect the rights of the stakeholders. They must protect all the stakeholders, especially the minority stakeholders.
3. More Powers to CEO: The CEO must be given more powers so that he can approve the company’s plans and strategies independently.
4. Accountability: The CEO and the Board of Directors must be made accountable for their actions to the stakeholders and to the entire society.
5. Based on Ethics: Corporate governance is based on ethics, moral principles and values. So, the Board of directors must avoid unfair practices, cheating, exploitation, etc.

6. Universal Application: Corporate governance has universal application. That is, it is used by companies all over the world. It is given a legal recognition in many countries. All companies must use corporate governance voluntarily.
7. Systematic: Corporate governance is very systematic. It is based on laws, procedures, practices, rules, etc. All these laws are made to increase the wealth of the shareholders and to protect the rights of all the stakeholders of the company