https://doi.org/10.31995/rjpss.2021.v46i01.011

Good Corporate Governance Principles and Its Importance

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Reference to this paper should be made as

Received: 06.03.2021
Approved: 22.03.2021
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Article No. 11
RJPSS Oct.-Mar. 2021, Vol. XLVI No. 1, pp. 097-102
Online available at:
https://anubooks.com/?page_id=7711

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Abstract:

Good Corporate governance meets the needs of society with the best use of resources. It facilitates economic growth by focusing on value-adding activities and aiding efficient allocation of scarce resources. Investors calculate the rate of return on invested capital and the risk associated with the investment before making any investment, Good corporate governance practices reduce this risk by ensuring fairness, openness, and transparency in its responsibilities to stakeholders. To maintain good governance within organization, a code of governance that consolidates the key governance practices is required. This paper will analyze the code of governance and its importance for the organization.

***Keywords**: Code of governance, Fairness, Openness, Transparency, Stakeholders.*

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Introduction

Corporate governance protects the rights and lawful interests of all participants and improves the quality of a company's operations by increasing the value of corporate assets, creating jobs, and enhancing the financial stability and profitability of the company. The principles of corporate conduct are fundamental guidelines for efficient organization. Basic principle of corporate governance as per the Organization for Economic Cooperation and Development (OECD) is discussed below-

1. Corporate governance provides the freedom to the shareholder to exercise their rights. Shareholders have the right to register ownership of shares and an opportunity todispose the same if required. Shareholders may participate in the management of a joint-stock company to make decisions on important issues of a company at a general shareholders meeting. The shareholder must be provided with notice of a general shareholders meeting. The shareholder can prepare for such a meeting by studying the list of persons entitled to take part in a general shareholders meeting. The comfort of the shareholder must be considered while deciding the place, date, and time of a general shareholders meeting sothat the shareholders genuine and unrestricted opportunity to take part in it is not affected. The procedures which provide the right to shareholder to introduce changes in the agenda of general shareholders meeting should not be unduly complicated and each shareholder is provided with voting right. Shareholders have rights over the profits of the company. The company must establish a transparent and shareholder-friendly mechanism for evaluating the number of dividends and payments. The shareholder must be known accurately to the condition and procedure required to pay dividends. The financial position of the company at the time of dividend payment must be clear to the shareholder. The shareholdercan impose sanctions on executive bodies for incomplete or delayed payment of declared dividends. Shareholders should have the right to the regular and timely receipt of complete and accurate information on the company

2. Corporate governance provides equal treatment to shareholders owning an equal number of shares of the same type (category). This will grant equal opportunity to all members of a specific category to express their opinion and ask questions. All the shareholders must be provided with full information about important corporate actions that were taken. Transparent procedures to elect members of the board of directors and the company's executive bodies must be followed. All the concerned information should be disclosed to members of the board, the director-general, and other persons who are interested in a specific transaction. All measures should be taken to resolve conflicts between the bodies of the company and its shareholders or between shareholders in the interest of the organization.

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3. Corporate governance practice allows the board of directors for the strategic management of the company's business. The company's development strategy, financial and business activities are also controlled by the Board of Directors. For this purpose, the board of directors should approve the important areas of the company's activities, financial and business plan, and internal control procedures. Members of the board of directors should be elected by means of a transparent procedure and also include a sufficient number of independent directors. Provisions are also made for the participation of non-executive and independent directors. Members of the board of directors take an active part in the meetings of the board and of board committees. The Board of Directors is vested with the right to suspend the authorities of the director-general of the company. It also defines eligibility criteria applicable to candidates for the position of director-general and members of the company's managerial board. Approve the terms and conditions of contracts between the company and the director-general and the members of the managerial board, including their remuneration and other fees.

4. Corporate governance practice offers the management of day-to-day activities of the company through itsexecutive. It also recommended the formation of a managerial board which is a collegiate executive body and competent to resolve complicated day-to-day activity of the company. The director-general and members of the managerial board should be elected by means of a transparent procedure that provides the shareholders with full information about such procedure. The director-general and members of the managerial board should be provided with sufficient time to discharge their duties. Executive bodies must act in accordance with the financial and business plan of the company. Remuneration of the director-general and members of the managerial board correspond to their qualifications and it also reflects their real contribution to the results of the company's operations.

5. Corporate governance practice should allow for timely, full, and accurate disclosure of information about the company's financial position, economic parameters, ownership, and management structure in order to enable the shareholders and investors to make investment decisions. Corporate governance provides for such information policy of the company that allows the shareholder to assess free and unhindered information about the company, but the company can control the use of confidential and insider information.

6. Corporate governance protects the legal rights of interested persons and increases the assets of the company by creating an environment of cooperation and also creates new jobs. For efficient operation of the company, the executive bodies of the company must consider the interests of third persons, including creditors of

the company and state and municipal bodies of the territory where the company or its structural subdivisions are located. The management bodies of the company should encourage employees to be concerned about the efficient operation of the company.

7. Corporate governanceimplementsthe efficient control over the financial and business operations of the company in order to protect the statutory rights of their shareholder. Daily supervision of financial and business operations is required for efficient control. Company must operate on the basis of a financial and business plan, which should be annually approved by the board of directors of the company. It is provided that the company should distinguish between the roles of those bodies and persons included in the supervision of financial and business operations of the company and those persons involved in the development, approval, application, and evaluation of the internal control system. Internal control procedures should be assigned to an internal control service which should be independent of the executive bodies of the company, while approval of internal control procedures should be assigned to the board of directors of the company. Company should ensure efficient coordination between internal and external audits.

The Pillars of Corporate Governance

As per Millstein Report (1998), corporate governance must focus on four important areas:

a) **Fairness-** Ensures the protection of rights of the entire shareholder predominantly the rights of minority and foreign shareholders and also ensures the enforceability of any contract.
b) **Transparency-** Include the timely disclosure of adequate, clear, and comparable information concerning the organization.
c) **Accountability-** Clarify the roles and responsibilities of all the authorities concerned for effective corporate governance.
d) **Responsibility-** Ensure corporate compliance with other laws and regulations of society.

Importance of Corporate Governance

ImprovedCorporate Performance

Quality decision-making and improved governance structures increase the effectiveness of the organization. Corporate performance is thus improved in terms of share price or profitability.

Enhanced Investment

Corporate Governance is evaluated by the investors before making the investment decision. They prefer those companies which provide high levels of

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disclosure and transparency. Thus good corporate governance enhanced the investment and trust of investors.

Better Access to Global Market

Good corporate governance systems attract investment from global investors, which subsequently leads to greater efficiencies in the financial sector.

Combating Corruption

Companies that are transparent, and have a sound system that provides full disclosure of accounting and auditing procedures, allow transparency in all business transactions, provide an environment where corruption would certainly fade out. Corporate Governance enables a corporation to compete more efficiently and prevent fraud and malpractices within the organization.

Easy Finance from Institutions

Several structural changes like the increased role of financial intermediaries and institutional investors, size of the enterprises, investment choices available to investors, increased competition, and increased risk exposure have made monitoring the use of capital more complex thereby increasing the need of Good Corporate Governance. Evidences indicate that well-governed companies receive higher market valuations. The creditworthiness of a company can be trusted on the basis of corporate governance practiced in the company.

Enhancing Enterprise Valuation

Improved management accountability and operational transparency fulfill investors expectations and confidence in management and corporations, and in return, increase the value of corporations.

Reduced Risk of Corporate Crisis and Scandals

Effective Corporate Governance ensures an efficient risk mitigation system in place. A transparent and accountable system makes the Board of a company aware of the majority of the mask risks involved in a particular strategy, thereby, placing various control systems in place to facilitate the monitoring of the related issues.

Accountability

Investor relations are an essential part of good corporate governance. Investors directly/ indirectly entrust the management of the company to create enhanced value for their investment. The company is hence obliged to make timely disclosures on regular basis to all its shareholders in Corporate Governance is integral to the existence of the company. Good Corporate Governance practices create an environment whereby Boards cannot ignore their accountability to these stakeholders.

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