Corporate Governance
A self discipline rather than a regulatory requirement

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Corporate Governance though it has been a recent phenomena as far as Indian laws and industries are concerned and way back few decades with Western countries, it has the roots from Maurya Dynasty when Arya Chanakya used to follow them. The history reveals that the principles of Corporate Governance were constituted by Arya Chanakya.

Those were constituted and implemented to have more and more transparency in the governance of kingdom by the king, as well as key personalities of his cabinet.

Corporate Governance is not the outcome of any law or regulation or an issue in corporate world. It is inherent in every business activity right from the inception. It doesn't have identity of corporate structure or similar organization. Even a proprietary organization or a partnership firm needs governance. It's like diet control or daily exercise whether to adopt when your physician tells you after lot of examinations and expenditure or doing it on your own.

Corporate Governance is about maximizing shareholder value legally, ethically and sustainably. The board should exercise its fiduciary responsibilities in the best interests of all the stakeholders. The term stakeholders do not restrict to shareholders but it covers the employees, creditors, debtors, tax authorities, society, etc.

According to Milton Friedman, Nobel Laureate in Economics, the sole aim of a business is and should be the maximization of shareholders' value.

Corporate Governance is a culture and not a set of rules and regulations. Certainly there are guidelines to have effective Corporate Governance.

An important determinant of the survival and growth of any business organization is transparency in its financial statements and various reports.

The Cadbury Committee of U.K. was the first to suggest creation of three strong pillars of corporate governance i.e. -

Nomination committee, Remuneration committee and Audit committee.

The nomination committee selects independent, non-executive directors to the board, the remuneration committee decides the remuneration payable to the non-executive directors and the audit committee ensures the preparation and presentation of true and fair picture of the organization's financial statements.

Indian economy, industry being completely integrated with the world economy, industry cannot afford to ignore better corporate practices. In India, during last two decades, many attempts were made by setting up various committees to formulate the framework of good corporate practices and effective corporate governance.

The very first attempt was made by Confederation of Indian Industries and issued its report in April 1998 with many recommendations.
Then Sebi Committee tabled its report in May 1999, with certain recommendations.
Subsequently Ganguly Committee presented its report in April 2002.
Another report was presented by Naresh Chandra Committee in December 2002.
N Narayanmurthy Committee issued its report in February 2003.

Despite all these recommendations and provisions of Company Law, the issues like Satyam Computers, ICICI Bank, IL&FS are being experienced. But that doesn't mean that good corporate practices are not being followed by others too. There are many such organizations who have adopted corporate governance very seriously and being followed.

The principles of Corporate Governance include -
Fair trade practices
Corporate Social Responsibility
Timely compliance of laws applicable
Wealth maximization of all stakeholders
Timely payment of taxes due to exchequer
Code of ethics
Doctrine of Trusteeship
Protection of minority interests
Evaluation of the board and its decisions

Trusteeship involves a strong code of discipline and ethical behavior as well as equally strong principle of accountability.

The word 'Ethics' has the origin from the word 'ethos' that means character or manners.
It is a science of morals, a treatise on rules of conduct which may be referred as moral principles.

Corporate ethics refers to a set of rules of conduct applied to business which is acceptable to society at large without any excuses.

The Bhagwad Gita talks about 'Aparigraha' (non-possession) and 'Sambhava' (equalism). Gandhiji found these principles of Bhagwad Gita as the base for his philosophy of Doctrine of Trusteeship. According to him, the owners or managers of an organization are the trustees of the organization and they should never forget this position and act with that responsibility like a trustee does.

Corporate Governance is always being discussed in board rooms, industry forums, seminars and conferences. The Committees are set up, reports are tabled and being waited to have some scam or fraud in the industry. The immediate harsh action is taken either to tighten the existing law provisions or enactment of some irrational law amendments. Timely preventive measures are expected to be taken to avoid the issues.

The assessment of board is done when there is scam or fraud which is a post mortem job. The appraisal of board members and the decisions taken have to be carried out periodically i.e. every year.

The board members at SMEs should be educated regularly about the importance of corporate governance in their own interest.

Every company which fulfils any of the criteria listed below should appoint at least one independent director within a year from the date of fulfillment of the criteria.
A company -

a) achieves turnover of Rs. 100 crores, or
b) employees more than 100 employees, or
c) borrows loans from banks and / or financial institutions more than Rs. 25 crores.

This regulation will certainly help to avoid failure of a company for some unwarranted reasons.

The best way of performing high standard of business practices is through self-regulation.

Business should be conducted in a manner that earns the goodwill of all concerned through quality, efficiency, transparency and good values.

SEBI regulations, Company Law and other various laws applicable to a listed company ensure the existence of corporate governance in such listed companies but there is hardly any mechanism to ensure corporate governance in SMEs.

It is no way restricted to a listed company or a public company. In fact it is more relevant to SME category organizations where public do not have direct interest however many other small sections get affected because of poor corporate governance in these organizations.

Corporate governance is equally or more important for SMEs. The rate of failure or shutting down of the businesses is more in SMEs than large corporate entities. It is mainly because of absence of governance from outside bodies and lack of internal self discipline. The hasty decisions, harsh actions of owner managers badly affect the performance of the organization resulting in insolvency, bankruptcy and eventually shutting down the organization.

Corporate Governance or good governance has benefits like perpetual existence of an organization, consistency in performance, healthy financial position, brand creation, good market standing, high market capitalization, best credit rating, etc.

Many internal and external factors become cause of the failure of SMEs like - lack of vision, absence of mission, financial indiscipline, limitations of regulatory agencies to supervise, competition by large organizations, red tapism, etc.

It's not only the ignorance of the controlling people of the SMEs that become the cause of the failure, but many a times it has been observed that these people are unaware of certain things or they have other priorities of running the business. In such a situation a Chartered Accountant plays a significant role to save the organizations from failure. Being a knowledgeable and vast experienced professional, he can certainly ensure good governance in such SMEs.

Being in the position of Statutory Auditor, Internal Auditor, Management Consultant, he can take lead and guide the people and if required, make them follow certain principles to ensure good governance.

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