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CORPORATE GOVERNANCE AND STRATEGIC IMPLEMENTATION

Abhishek Kumar Jha
MBA, MIMA, Research Scholar, L.N. Mithila University, Darbhanga.

ABSTRACT

Corporate Governance is defined as "the system by which companies are directed and controlled". Corporate Governance decides whom should the organization be there to serve, and how the direction and purposes of the organization should be determined. Corporate Governance helps determine the choices the organization makes for society and how it ensures that these choices are faithfully implemented. To grow a company and keep the culture innovative and entrepreneurial at the same time was an impossible contradiction. But in today's turbulent world, innovating by continually creating and re-inventing new markets, products, services, business models, and organizational capabilities are critical for any business, as an organization, how do you achieve this goal? The answer lies in using classic entrepreneurial capabilities — including a visionary outlook and ability to see possibilities where others don't, a passion and drive, problem-solving skills, and confidence about risk-taking — to continuously re-invent the organization. That is what ideally the role of Corporate Governance should be. It should facilitate this vision and create the structure to make it possible. Corporate Governance leads the leaders.

Key Words: Corporate Governance, Governing Board, Stakeholders, Strategic Implementation

INTRODUCTION

Corporate governance is of interest to us as it determines the strategy of the organization and how it is to be implemented. It is also important to us because the Corporate Governance framework determines who the organization is there to serve and how the priorities and purposes of the organization are determined. Perhaps one of the most important principles of corporate governance is the recognition of shareholders. The recognition is two-fold. First, there is the basic recognition of the importance of shareholders to any company – people who buy the company's stock fund its operations. Equity is one of the major sources of funding for businesses. Second, from the basic recognition of shareholder importance follows the principle of responsibility to shareholders.

The policy of allowing shareholders to elect a board of directors is critical. The board's "prime directive" is to be always seeking the best interests of shareholders. The board of directors hires and oversees the executives who comprise the team that manages the day-to-day operations of a company. This means that shareholders, effectively, have a direct say in how a company is run.

Shareholder interest is a major part of corporate governance. Shareholders may reach out to the members of the community who don't necessarily hold an interest in the company but who can nonetheless benefit from its goods or services.

Reaching out to the members of the community encourages lines of communication that promote company transparency. It means that all members of the community – those who are directly or indirectly affected by the company – and members of the press get a clear sense of the company's goals, tactics, and how it is doing in general. Transparency means that anyone, whether inside or outside the company, can choose to review and verify the company's actions. This fosters trust and is likely to encourage more individuals to patronize the company and possibly become shareholders as well.

Concept of Stakeholders

From the start of the Industrial revolution, the notions of 'who stakeholders in a business are', has been gradually changing. The first concept of a stakeholder was of the person or people who were running (and owned) the business. In early industrial society; where the businesses were generally limited to their places of origin and served the basic needs of the community, this interpretation of stakeholder was understandable. With the coming of the second industrial revolution, businesses grew and they started borrowing from institutional lenders. The lenders demanded a voice in the proper management of the business. The definition of 'stakeholders' was revamped to include the major lenders to the business.

In the 1960s, mass production had become a way of life. Business enterprises ran the risk of large economic losses if the production lines were not running. Business organizations had to reconsider theirjocus. Businesses realized that they needed to satisfy the needs of its consumers in order to survive. The dependence and importance of buyers and suppliers in the well being of the organization was acknowledged by changing the stakeholder concept to include buyers and suppliers as a part of the stakeholder family.

The modern concept of world class organizations is that stakeholders are those individuals or groups who depend on the organization to fulfill their own goals and on whom, in turn, the organization depends. In addition to the shareholders, other stakeholders are the funding organizations, the suppliers, the buyers and the employees, unions of the organization and the community; The type of stake and the risk that is hazarded by each of these categories is different; however all these categories have stakes in the well being of the organizhtion.

Though the largest stake, in money terms, in a business organization is put-up by institutional lenders, their relationship with the organization is complex and they can exert significant influence on the organization. The situation varies in different countries. There are different traditions regarding 'debt/equity ratios' and the extent to which the relationship with the lenders is regarded as contractual or one of partnership. In India, banks akrng with other financial institutions may have significant equity stakes in addition to providing debt capital. This is also true in Japan and to some extent in Germany. In UK and USA, banks generally provide debt capital only. In these different situations, banking controls are very different and exercised in different ways. In Japan, banks exercise their influence on the long term strategy of the organization directly, while in the UK and USA, banks exercise their power by withdrawing funds.

Suppliers, distributors, etc., often invest large sums to provide services to the organization, but like the institutional lenders their relationship is contractual and their ability to influence decisions, unlike institutional lenders, is often limited. Of these two, the supplier has less influence.

In the developing countries and the lesser developed countries, the interests of the consumers are not properly protected. The legal framework places the burden of risk on the customer thereby giving the balance of power to the business organization. In the more industrially developed nations, legislation to protect consumers have grown substantially from the 1960s onwards. In addition, many consumer interest bodies have sprung up giving a voice to the customer. This trend is spreading to other countries also.

This is especially important for the vast majority of Indian companies who have been languishing with outdated practices nurtured by a concept of family interests during the years of insulated economic environment. The liberalization initiatives of the nineties have exposed the inefficiencies of many of these organizations which are trying come to terms with the paradigm shift in doing business.

Governing Board

The primary statutory responsibility of governing a public limited company is with the board of Directors. The role of the corporate board of directors as stewards of their shareholders and stakeholders is internationally established today. The corporate board has come to be regarded as the principal arbiter, ensuring on the one hand that executive management competently and through legitimate means creates wealth, and o the other, that such created wealth is equitably distributed to all shareholders after meeting the due aspirations of and obligations to other stakeholders.

Directors derive their authority only when acting collectively as the board or when the board delegates specific authority. Managers, in the broadest sense of the term, have the responsibility to execute the policies under the supervision of the board, and for this purpose have the necessary authority to ensure compliance and implementation. This requirement applies equally to cases of extreme separation of operational control from share ownership and those with minority or dominant shareholders in charge of executive management as is the case in several developing countries.

In India, just like the United Kingdom and the United States, there is a single tier board usually incorporating both executive as well as non-executive directors. Indian company law prescribes a minimum of three directors for a public limited company. Subject to this requirement, the size of the board is left to the company itself. There has also been discussion whether or not a legally prescribed balance of power is not beneficial. Through the Listing Agreement route, listed companies are now required to have at least fifty percent of the board as non- executive by the Securities and Exchange Board of India (SEB1). Non-executive directors often represent the interests of key stakeholders (e.g. institutional investors).

The board may constitute sub-committees to look into specific areas, so that the board is more involved with the work of the managers of the organization.

Governance Issues

Corporate governance has wide ramifications and extends beyond good corporate performance and financial propriety The complexity of corporate governance arises from two main reasons. First, in most countries there is no separation between ownership and management control of the organization. The second is the increasing tendency to make organizations more visibly accountable not only to the owners (shareholders) but also to other stakeholder groups.

In case of the first issue, it is imperative to distinguish the nature of the two basic components of governance in terms of,
(a) policy making and oversight responsibilities of the board of directors, and
(b) the executive and implementation responsibilities of corporate management

Company law as it stands currently in India does not bring out this distinction clearly in highlighting the boards' responsibility as being able to supervise the management of the business. Though in a contextually different situation, the Managing Director (meaning the Chief Executive) is defined to have been entrusted with "substantial powers of management", with the exercise of such powers being "subject to the superintendence, control and direction of its Board of Directors". Despite such recognition of the distinction, however, company legislation in the country continues to deal with the two functions in a somewhat common manner.

The impact of corporate governance systems on strategy is most dramatically apparent in the area of takeovers, especially hostile takeovers. In the Anglo-Saxon market based model of governance, the threat of takeover is considered as primary means of ensuring the good performance of organizations. In India, though we follow the Anglo-Saxon market based model of governance, therc is some protection against hostile takeovers. The Securities and Exchange Board of India has introduced a regulatory framework in 1997, which was subsequently amended in 2002, restricting the purchase of shares beyond 15 per cent for a hostile takeover under certain conditions. It provides certain advantages to the promoters. In the European system, the performance of organizations is seen as being primarily controlled by institutional based mechanisms such as equity ownership by Banks, two tier boards, and co-determination.

The second issue is to make organizations more visibly accountable and the demand for more transparency and accountability on the part of corporations. Almost invariably, such efforts gain momentum in the wake of some major financial scam or corporate failure. Among the issues that have come to public attention in the early 2000s are serious failures of governance, accounting scandals that continue to be big news since the late 1 990s, and corporate failures associated with malfeasance and executive greed.

Stakeholder Power

The analysis process of the corporate governance system and the power equation between the stakeholders provides an understanding of the ways in which it is possible to influence and direct the organization towards policies and decisions that will increase and strengthen the capacity of an organization to implement change The advantages of organizational analysis are that

It allows us to understand the ease or difficulty with which new strategies can be adopted

Helps identify whether the organization has the resources/competencaes to deliver the new strategic direction, once identified

Identifies key areas of relevant expertise/knowledge within the organization Policies can then be developed to capitalize on this expertise

Feeds into change management and implementation planning

Governance and Strategy Implementation

The Board of Directors is responsible for supervising the successful management of the organization's business. It has the authority and obligation to protect and enhance the assets of the Corporation in the interests of all shareholders and the company's public mission. It is commonly believed that Corporate Governance is responsible for formulation and choice of strategy, but not so much in the implementation of strategy This perception is not true. The Board of Directors responsibilities include:

Oversight and approval on an ongoing basis of the Corporation's corporate and business strategies and monitoring their implementation;

Oversee the establishment and implementation of effective corporate governance processes.

Establish standards for, management and monitor performance; and Approve procedures for strategy implementation, for identifying and managing risks and for insuring the integrity of internal control and management information systems.

The Board's responsibility to ensure the operation of a successful business should be an active, not passive one. The Board has to promote ethical conduct on the part of the corporation and oversee its compliance with applicable laws and regulations and the integrity of its financial disclosures. The quality of leadership is reflected in the authority of the Board to appoint the Chief Executive Officer and monitor leadership performance. In addition, the Board should, on an ongoing basis as a part of its responsibilities, view management succession issues and management development activities; advancement potential of senior executives; succession plans for each and the CEO; as a important duty.

The involvement and commitment of Directors in preparation, participation in setting goals, and requiring and monitoring performance is essential. This is necessary for effective implementation of strategy and is also in the interests of stakeholders. The quality of entrepreneurial capability is reflected in the tenacity and resilience in the implementation of strategy.

CONCLUSION

It is evident from above that it is essential that good governance practices must be effectively implemented and enforced preferably by self-regulation and voluntary adoption of ethical code of business conduct and if necessary through relevant regulatory laws and rules framed by Government or its agencies such as SEBI, RBI.

The effective implementation of good governance practices would ensure investors confidence in the corporate companies which will lead to greater investment in them ensuring their sustained growth. Thus good corporate governance would greatly benefit the companies enabling them to thrive and prosper.

Further, in the context of liberalization and globalisation there is growing realization in the emerging economies including India that a country's business environment must be maintained and operated in a manner that is conducive to investors' confidence so that both domestic and foreign investors are induced to make adequate investment in corporate companies. This will be conducive to rapid capital formation and sustained growth of the economy.

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