Corporate Governance – Its Model's Applicability in Corporate World

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ABSTRACT

A corporate is also creates, for the individual and for the society, the path for ever growing prosperity, equality and eternal peace soaked in enlightened unselfishness as the way to Godhood. Good governance has been an eternal source of inspired thinking and dedicated action. Modern business corporations share many of their features with democratically elected governments. Boards of companies need not be uniform with respect to their composition, thinking styles and functioning methodologies. Their strength lies in their diversity.

Developing prospective of corporate governance is:

(i) Foreign corrupt practices act 1977 (USA) made specific provisions regarding establishment, maintenance and review of systems of internal control.
(ii) In 1979, US Securities exchange commission prescribed mandatory reporting on internal financial controls.
(iii) Tread way Commission constituted in 1985 highlighted the need of putting in place a proper control environment, desirability of constituting independent boards and its committees and objective internal audit function.
(iv) The committee of sponsoring organization produced and stipulated in1992

Creating awareness on the importance of implementing good C G practices both at the level of Individual Corporation and the economy as a whole help in:

(i) Encouraging research capabilities
(ii) Providing key inputs for developing laws and regulations
(iii) Maximization and fair distribution of wealth
(iv) Working with the regulatory authorities at multiple levels to improve implementations.

Key words: corporate governance, Anglo- American model, German model, Japanese model, India model,

I INTRODUCTION

"CORPORATE GOVERNANCE IS DIFFERENT FROM MANAGEMENT. GOOD GOVERNANCE HAS ALWAYS BEEN AN ISSUE STIMULATED FUNDAMENTAL THINKING RIGHT FROM ANCIENT TIMES".

It also created for the individual and the society the path for ever growing prosperity, equality and eternal peace soaked in enlightened unselfishness as the way to Godhood. Good governance has been an eternal source of inspired thinking and dedicated action. Modern business corporations share many of their features with democratically elected governments. Boards of companies need not be uniform with respect to their composition, thinking styles and functioning methodologies. Their strength lies in their diversity.

II DEVELOPING PROSPECTIVES

(a) Foreign corrupt practices act 1977 (USA) made specific provisions regarding establishment, maintenance and review of systems of internal control.
(b) In 1979, US Securities exchange commission prescribed mandatory reporting on internal financial controls.
(c) Tread way Commission constituted in 1985 highlighted the need of putting in place a proper control environment, desirability of constituting independent boards and its committees and objective internal audit function.
(d) The committee of sponsoring organization produced and stipulated in1992

III NATIONAL FOUNDATION OF CG

The ministry of Corporate Affairs, has set up national foundation for Corporate Governance (NFCG) in partnership with confederation of Indian Industry (CII), institute of company secretary in India (ICSI), and Institute of Chartered Accountant of India (ICAI)

IV BEST CG PRACTICES

(a) Mission

(i) To foster a culture for promoting good governance, voluntary compliance and facilitate effective participation of different stakeholder;

(ii) To create a framework of best practices, structure, processes and ethics;

(iii) To make significant difference to Indian Corporate governance in India towards achieving stability and growth.

(b) Some Definitions

(i) "Corporate Governance is the system by which companies are directed and controlled…"

Cadbury Report (UK), 1992

(ii) "…to do with Power and Accountability: who exercises power, on behalf of whom, how the exercise of power is controlled."

(iii) Sir Adrian Cadbury, in *Reflections on Corporate Governance, Ernest Sykes Memorial Lecture, 1993*

(c) Indian Definitions

(i) "…fundamental objective of corporate governance is the 'enhancement of the long-term shareholder value while at the same time protecting the interests of other stakeholders."

SEBI (Kumar Mangalam Birla) Report on Corporate Governance, January, 2000

(d) Further Defined As

Corporate governance is essentially about leadership:

(i) leadership for efficiency;

(ii) leadership for probity;

(iii) leadership with responsibility; and

(iv) Leadership which is transparent and which is accountable.

Principles for corporate governance in the commonwealth

V OBJECTIVES

(a) To compare the models of Corporate Governance.

(b) To identify the impact of Corporate Governance Practices adopted by Indian Government.

(c) To provide findings and suggestions as per the four pillars and prescribed elements of CGP.

VI RESEARCH METHODOLOGY

(a) Sample: The study is based on secondary data taken from government reports. https://en.wikipedia.org/wiki/**Corporate_governance**

articles.economictimes.indiatimes.com
www.businessdictionary.com/definition/**corporate-governance**

(b) Hypothesis:

Ho1: there is no significant similarity among the different models of Corporate Governance practices.

Ho2: there is no significant impact of good Governance practices Adopted by Indian Governance.

VII MODELS OF CORPORATE GOVERNANCE

There are four main models of C G

(a) Anglo- American model

(b) German model

(c) Japanese model

(d) India model

(a) Anglo American Model

This is also known as unitary board model. This approach to governance tends to be shareholder-oriented. It is also called the 'Angle- Saxon' approach to corporate governance, being the basis of corporate governance in America, Britain, Canada, Australia and other Commonwealth law including India.

(b) Features

(i) Equally divided ownership between individual/ institutional shareholders.

(ii) Directors are rarely independent of management

(iii) There is a fairly clear separation of ownership and management

(iv) Most institutional investors are reluctant activists. They act as portfolio managers.

(v) Provide adequate protection to the small investor and promoting general market liquidity.

(vi) Discourage large investors from taken an active role in C G.

(c) Erman Model

It is also called two-tier board model, CG is excised through two boards, in which the upper board supervises the executive board on behalf of shareholders and is typically societal- oriented. In this model, although shareholders own the company, they do not entirely dictate the governance mechanism. They elect 50 percent of members of supervisory board and the other half is appointed by labour unions, ensuring that employees and laborers also enjoy a share in the governance. The supervisory board appoints and monitors the management board.

(d) Japaneses Model

This is also called business – network model. Which reflect the cultural relationship seen in the Japanese keiretsu network, in which the board tends to be large, predominantly executive and ritualistic? The reality of power is lies in the relationships between top management in the companies in the keiretsu network.

(e) Common Features of German & Japanese Model

(i) Banks and financial institutions have substantial stakes in the equity capital of the company.

(ii) Cross holding in the group of firms is common in Japan.

(iii) Institutional investors in both the company view themselves as long term investors. They play fairly active role in corporate management.

(iv) Both have the efficiency in the capital market such as disclosure norms are not very stringent, check on insider trading are not very comprehensive and effective, emphasizes on liquidity is not very high.

(v) There is hardly any system of corporate control in these countries. Mergers and takeovers are rare occurrences'.

(f) Indian Model

Indian corporate is governed by the company's act of 1956 which follows more or less the UK model. The pattern of private companies is mostly that of closely held or dominated by a founder, his family and associates. India has adopted the key tenets of the Anglo-American external and internal control mechanism after economic liberalization.

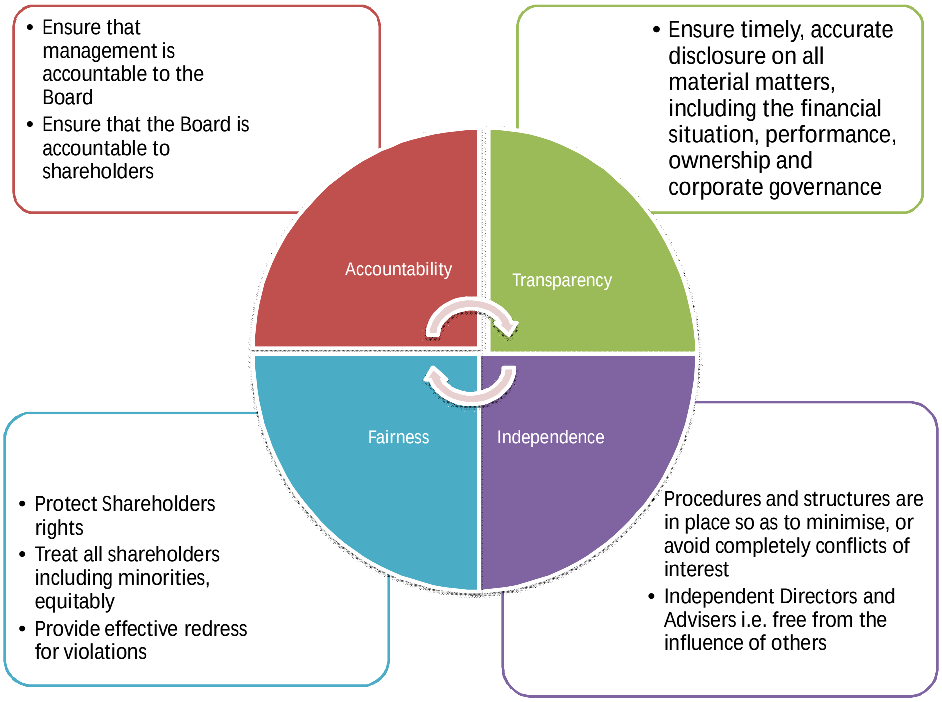
Table 1
Showing: The Comparative Analysis of Models

S.NO.	FEATURES	ANGLO-AMERICAN	GERMAN	JAPANESE	INDIAN
1	Corporate objective	Shareholders value	Long term corporate value	Long term corporate values	Shareholders value
2	Shareholding	Diffused institutional investors, significant block holders.	Banks, Promoters families other corporate	Financial and non-financial corporate	Directors and relatives, other corporate, foreign investors, Govt- term lending institutions, foreign investors.
3	Governance Focus	Capital market	Corporate Body	Keiretsu or business network	Maximum Surplus
4	Measures of Success	Return on financial capital	Return on human capital	Return on social capital	Return on financial capital
5	Decision- Making	Checks and Balances between voice and exit options. Outside stakeholders excluded	Within the network of stakeholders including employees, local community	Within the network – includes business associates and banks as stakeholders	Management, outside stakeholders excluded
6	Control of corporate	Separated from ownership	Linked with ownership	Linked with ownership	Linked with ownership
7	Orientation	Short- term driven by Stock market Prices	Long- term	Long-term	Short term gains
8	Long term investments in	Physical capital, R& D, Human Capital	Plants and Equipments, employee training	R & D, Employees training	Physical capital
9	Capital market (Primary)	liquid	Less importance due to close ties with banks	Less importance due to close ties with banks	Less importance due to institutional findings
10	Capital market (secondary)	Important, frequent hostile takeovers possible	Not important, hostile takeovers rare	Not important, hostile takeovers rare	Not important, hostile takeovers rare

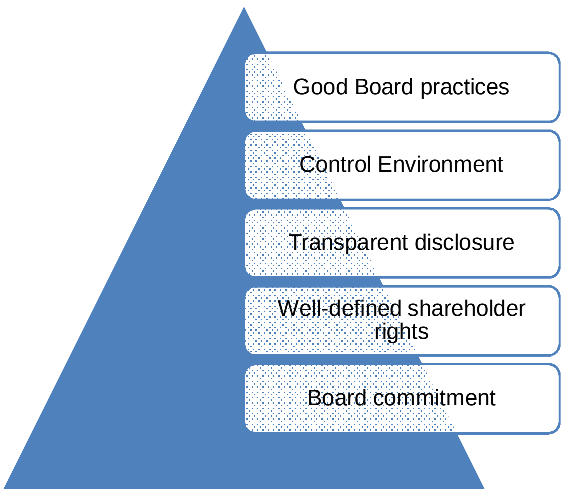
11	Investors commitments	low	High important in difficult times	High important in difficult times	low
12	Major investors	Institutional shareholders, individual stakeholders, business network, employees, government and banks.	Banks, business networks employees, government, individual shareholders, and institutional shareholders	Business networks, main banks, government, institutional shareholders, individual shareholders, and employees	Directors and relatives, other corporates, foreign investors, govt. term lending institutions, public shareholders, and institutional investors (UTI)
13	Board compositions	Executives and non-executive directors	Two-tier boards, upper tier-supervisory board, lower tier- management board	Executives and non-executive directors (representing outside finance institutions)	Executives and non- executive directors
14	Goal of the board	To promote shareholders wealth	To promote long term organizational health	To promote long term organizational health	Short term gains
15	Board independence over management	Little	High	Little formally, more informally	Little
16	Executive compensation	High	moderate	low	Moderate, subject to Govt approval
17	Dividends	High	Low	Low	Low, uncertain
18	Strength	Dynamic, market- based, liquid capital, internalization non- problematic	Long-term industrial strategy, stable capital, strong overseas investment, governance procedures	Long- term industrial strategy, stable capital	Recent government and organizational activism (CII) towards corporate governance practices.
19	Weaknesses	Instability, short- termism	Internationalization difficult, vulnerable to global capital	Secretive, corrupt practices, growth in institutional activism and financial speculation in recent times	Lack of proper disclosures, secretive corrupt practices, instability

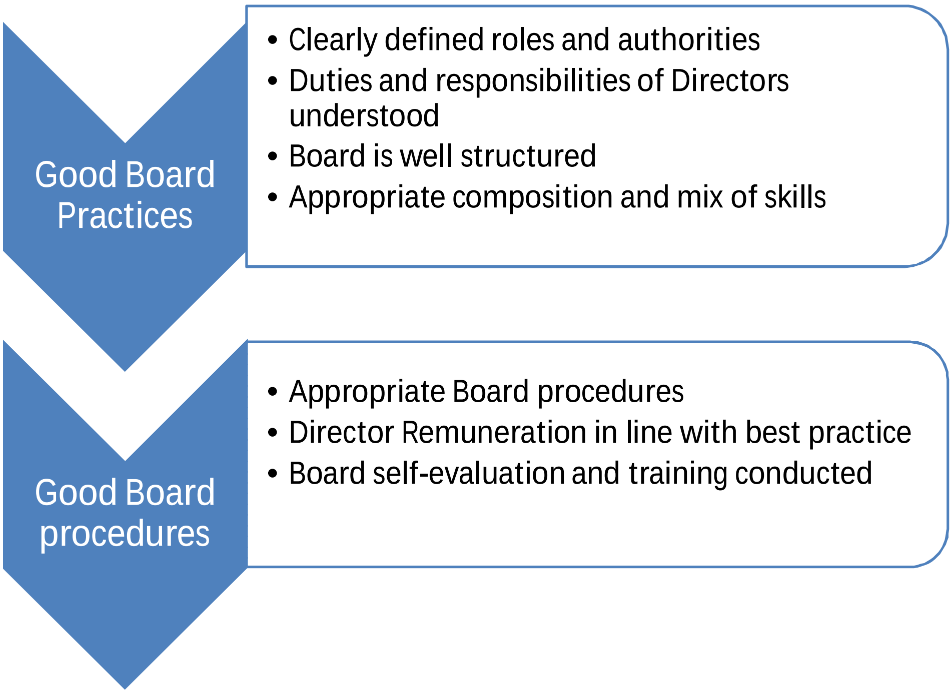
VIII FINDINGS AND SUGGESTIONS

As per the comparative analysis of the models it is found that there should be the responsibilities of the corporate sector to practice following four major things known as four **pillars** of Corporate Governance:



Elements of Corporate Governance





(a) Control Environment

(i) Internal control procedures
(ii) Risk management framework present
(iii) Disaster recovery systems in place
(iv) Media management techniques in use
(v) Internal Audit Function
(vi) Management Information systems established
(vii) Compliance Function established
(viii) Business continuity procedures in place
(ix) Independent external auditor conducts audits
(x) Independent audit committee established

(b) Transparent Disclouser

(i) Financial Information disclosed
(ii) Non-Financial Information disclosed
(iii) Financials prepared according to International Financial Reporting Standards (IFRS)
(iv) Companies Registry filings up to date
(v) High-Quality annual report published
(vi) Web-based disclosure

(c) Well Defined Shareholders Rights

(i) Minority shareholder rights formalized
(ii) Well-organized shareholder meetings conducted
(iii) Policy on related party transactions
(iv) Policy on extraordinary transactions
(v) Clearly defined and explicit dividend policy

(d) Board Commitment

(i) The Board discusses corporate governance issues and has created a corporate governance committee
(ii) The company has a corporate governance champion
(iii) A corporate governance improvement plan has been created
(iv) Appropriate resources are committed to corporate governance initiatives
(v) Policies and procedures have been formalized and distributed to relevant staff
(vi) A corporate governance code has been developed
(vii) A code of ethics has been developed
(viii) The company is recognized as a corporate governance leader

(e) Other Commitments

(a) Corporate Governance applies to all types of organizations not just companies in the private sector but also in the not for profit and public sectors
(b) Examples are NGOs, schools, hospitals, pension funds, state-owned enterprises

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