Journal Homepage: - www.journalijar.com

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

ISSN NO. 2320-5407

Article DOI: 10.21474/IJAR01/5311
DOI URL: http://dx.doi.org/10.21474/IJAR01/5311

RESEARCH ARTICLE

ROLE OF CORPORATE GOVERNANCE IN ORGANIZATIONS.

Ch.Varalakshmi[1] and Srivani[2].

1. Lecturer department of mba Andhra Loyola College vijayawada-ap.
2. Lecturer department of commerce Andhra Loyola College vijayawada-ap.

Manuscript Info

Manuscript History

Received: 02 July 2017
Final Accepted: 04 August 2017
Published: September 2017

Key words:-
Corporate governance,Multinational company,Stockholder.

Abstract

The importance of corporate governance in today's modern and aggressive business environment cannot be denied.The main motive of corporate governance is to enhance effective, entrepreneurial and efficient management that can deliver the long-term success of the company.Many multinational companies are following corporate governance.In the current scenario corporate governance is a hot topic , it is a relatively new field of study. Achieving best practices has been hindered by a patchwork system of regulation, a mix of public and private policy makers.and the lack of an accepted metric for determining what constitutes successful corporate governance. policy.Following the great financial scandal in big companies, like Enron,Satyam, World Com, Adelphi, Cisco and …, one of the most topics raised by researchers and from investors is Corporate Governance.It clearly convey the necessity for company management control, division of economical unit from its ownership and enhancing the performance of the board of managers, auditors, accounting system, internal control, and finally maintaining investors and stakeholders' rights. Using efficient managers in companies results in growth of their performance, leading to stockholders rights too; consequently financial performance will be increased and company control will be better performed.Corporate Governance importance in the world is at some extent that Standard & Poors institute has introduced following multiple criteria to measure corporate governance status: ownership structure, financial stockholders relationships, structure and how-to-act of the board of managers, and clearance and disclosure of the information. Due to the topic importance, this article will reflects the corporate governance and its conceptual framework, types of existed theories, types of the corporate governance, and comparing them with each others as well as attempting to develop corporate governance. studies applied guided bone regeneration while three studies did not.

Introduction:-

Corporate governance is nothing more than how a corporation is administered or controlled. Corporate governance takes into consideration company stakeholders as governmental participants, the principle participants being shareholders, company management, and the board of directors. Adjunct participants may include employees and

Corresponding Author:- Ch. Varalakshmi.
Address:- Lecturer department of mba andhra loyola college vijayawada-ap.

suppliers, partners, customers, governmental and professional organization regulators, and the community in which the corporation has a presence.

Because there are so many interested parties, it's inefficient to allow them to control the company directly. Instead, the corporation operates under a system of regulations that allow stakeholders to have a voice in the corporation commensurate with their stake, yet allow the corporation to continue operating in an efficient manner. Corporate governance also takes into account audit procedures in order to monitor outcomes and how closely they adhere to goals, and to motivate the organization as a whole to work toward corporate goals. By using corporate governance procedures wisely and sharing results, a corporation can motivate all stakeholders to work toward the corporation's goals by demonstrating the benefits, to stakeholders, of the corporation's success.

Corporate governance may include:-

1. Control and direction processes.
2. Regulatory compliance.
3. Active ownership and investment in a company

Primarily, though, corporate governance refers to the framework of all rules and relationships by which a corporation must abide, including internal processes as well as governmental regulations and the demands of stakeholders. It also takes into account systems and processes, which deal with the daily working of the business, reporting requirements, audit information, and long-term goal plans.

Corporate governance provides a roadmap for a corporation, helping the leaders of a company make decisions based on the rule of law, benefits to stakeholders, and practical processes. It allows a company to set realistic goals, and methodologies for attaining those goals.

Development of corporate governance:-

In the 1800s, state corporation laws assisted in the creation of corporate boards, who could govern, much like state congresses, without unanimous consent of shareholders. This made the running of corporations much more efficient. As time passes, corporate boards seem to be gathering more and more power, particularly with the inception of large mutual funds and similar cash-building entities, which place another layer of organization between stakeholders and corporate governors.

Fortunately, most people directly involved in corporate governance are honest and interested in what's best for the company, though there have been glaring and destructive exceptions to that lately. Parties involved directly in corporate governance do not just include the Board of Directors, but also the SEC, the company's CEO, management, and the more important shareholders. Shareholders typically delegate their decision-making rights to managers to act in their best interests.

Corporate governance is based largely on trust – the trust, by the stakeholders, that revenues will be fairly shared, and that those directly involved in running the company are running it in an aboveboard, honest, and open manner, and that they represent the best interests of the company and of the shareholders. Therefore, key elements of corporate governance are honesty, trust and integrity, openness, responsibility, and accountability. Recent new governmental regulation has attempted to reinforce these elements.

Conceptual framework of corporate governance:-

Agency Theories:-

Agency theories arise from the distinction between the owners (shareholders) of a company or an organization designated as "the principals" and the executives hired to manage the organization called "the agent." Agency theory argues that the goal of the agent is different from that of the principals, and they are conflicting (Johnson, Daily, & Ellstrand, 1996). The assumption is that the principals suffer an agency loss, which is a lesser return on investment because they do not directly manage the company. Part of the return that they could have had if they were managing the company directly goes to the agent. Consequently, agency theories suggest financial rewards that can help incentivize executives to maximize the profit of owners (Eisenhardt, 1989). Further, a board developed from the perspective of the agency theory tends to exercise strict control, supervision, and monitoring of the performance of the agent in order to protect the interests of the principals (Hillman & Dalziel, 2003). In other words, the board is actively involved in most of the managerial decisionmaking processes, and is accountable to the shareholders. A non profit board that operates through the lens of agency theories will show a hands-on management approach on behalf of the stakeholders.

Stewardship Theories:-

Stewardship theories argue that the managers or executives of a company are stewards of the owners, and both groups share common goals (Davis, Schoorman, & Donaldson, 1997). Therefore, the board should not be too controlling, as agency theories would suggest. The board should play a supportive role by empowering executives and, in turn, increase the potential for higher performance (Hendry, 2002; Shen, 2003). Stewardship theories argue for relationships between board and executives that involve training, mentoring, and shared decision making (Shen, 2003; Sundaramurthy & Lewis, 2003).

Resource-Dependence Theories:-

Resource-dependence theories argue that a board exists as a provider of resources to executives in order to help them achieve organizational goals (Hillman, Cannella, & Paetzold, 2000; Hillman & Daziel, 2003). Resource-dependence theories recommend interventions by the board while advocating for strong financial, human, and intangible supports to the executives. For example, board members who are professionals can use their expertise to train and mentor executives in a way that improves organizational performance. Board members can also tap into their networks of support to attract resources to the organization. Resource-dependence theories recommend that most of the decisions be made by executives with some approval of the board.

Stakeholder Theories:-

Stakeholder theories are based on the assumption that shareholders are not the only group with a stake in a company or a corporation. Stakeholder theories argue that clients or customers, suppliers, and the surrounding communities also have a stake in a corporation. They can be affected by the success or failure of a company. Therefore, managers have special obligations to ensure that all stakeholders (not just the shareholders) receive a fair return from their stake in the company (Donaldson & Preston, 1995). Stakeholder theories advocate for some form of corporate social responsibility, which is a duty to operate in ethical ways, even if that means a reduction of long-term profit for a company (Jones, Freeman, & Wicks, 2002). In that context, the board has a responsibility to be the guardian of the interests of all stakeholders by ensuring that corporate or organizational practices take into account the principles of sustainability for surrounding communities.

Corporate governance should encompass the following:-

1. The company's performance and the performance of the board
2. The relationship between the board and executive management
3. The appointment and assessment of the board's directors
4. Board membership and responsibilities
5. The "ethical tone" of the company, and how the company conducts itself
6. Risk management, corporate compliance and internal controls
7. Communication between the board and the C-suite
8. Communication with the shareholders
9. Financial reporting

This list provides a bird's-eye view of corporate governance in action, and conveys the extent to which it can influence business. To help organizations navigate corporate governance, Deloitte offers a Governance Framework that outlines the board's objectives and responsibilities, and how they relate to the corporate governance infrastructure.

But simply implementing a corporate governance strategy isn't the same as achieving success. Most examples of good corporate governance have something in common, too: they're built on a foundation of transparency, accountability and trust.

Time and time again, these three terms enter into the corporate governance discourse. They have immense value, whether a business is family-run, a nonprofit or a publicly traded company. That's one of the reasons why corporate governance is top of mind for so many business professionals. Above all, the role of corporate governance in modern organizations is to demonstrate these key principles to shareholders, stakeholders and the public.

Conclusion:-

Corporate governance is the way a corporation polices itself. In short, it is a method of governing the company like a sovereign state, instating its own customs, policies and laws to its employees from the highest to the lowest levels. Corporate governance is intended to increase the accountability of your company and to avoid massive disasters before they occur.Corporate governance is of paramount importance to a company and is almost as important as its primary business plan. When executed effectively, it can prevent corporate scandals, fraud and the civil and criminal liability of the company. It also enhances a company's image in the public eye as a self-policing company that is responsible and worthy of shareholder and debtholder capital. It dictates the shared philosophy, practices and culture of an organization and its employees. A corporation without a system of corporate governance is often regarded as a body without a soul or conscience. Corporate governance keeps a company honest and out of trouble. If this shared philosophy breaks down, then corners will be cut, products will be defective and management will grow complacent and corrupt. The end result is a fall that will occur when gravity - in the form of audited financial reports, criminal investigations and federal probes - finally catches up, bankrupting the company overnight. Dishonest and unethical dealings can cause shareholders to flee out of fear, distrust and disgust.