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Corporate Governance

Why in news?

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The term was often seen in news following the rift between the founders and the management of Infosys.

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What is Corporate Governance?

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- The term governance refers to the act of managing an entity.
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- What makes the governance of a company different is the separation of ownership from management in the corporate structure.
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- Public limited companies pool capital from thousands of shareholders.
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- But these shareholders/owners effectively play no active role in the day to day running of company.
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- They delegate all the ‘governance’ to a management team.
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- Good Corporate Governance is all about ensuring the management team runs the company in the interests of its owners, instead of their vested interests.
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Why is it important?

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- Most listed companies and large corporate groups in India were born as family-owned businesses.
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- Family members used to occupy managerial positions and make all the key business decisions.

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- This also meant very little distinction between the company’s finances and that of the family owners.
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- With the evolution of the equity markets, many of these family-owned businesses listed themselves on the exchanges.
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- However, the traditional governance practices continued.
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- Though no longer the sole owners, the promoters continued to wield disproportionate influence over decisions.
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- Companies Act 1956 tried to fix it by requiring company Boards to seek Central Government permission for certain decisions like loans to directors and shareholder approvals for decisions like appointment of relatives.
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- These checks were proved inadequate.
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- SEBI constituted a series of committees to come up with more elaborate governance norms for India Inc.
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- The present corporate governance norms, enshrined in the Companies Act, SEBI listing regulations and Clause 49 of the listing agreement are the result of deliberations by these committees.
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- Yet another committee — the Uday Kotak committee — has recently been tasked with a further review.
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What are the present norms for listed companies?

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- Governance norms for Indian listed companies are set out in\n\n
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  1. The Companies Act,
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  2. Clause 49 in the listing agreement that companies sign with the exchanges and
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  3. SEBI’s new Listing Obligations and Disclosure Requirement Regulations of 2015.
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- They include -\n
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  1. At least one-third of the Board should be independent directors
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  2. All related party deals need to be disclosed.
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  3. Comparative metrics on managerial pay has to be disclosed
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  4. Audit and nomination committees are to be appointed.
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  5. CEO and CFO are required to sign off on the governance norms being met in the financial statements.
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  6. Minority shareholders with 10% voting rights also have the right to drag companies to Court for ‘oppression and mismanagement’.
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Source: Business Line

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