Understanding Corporate Governance

What is the issue?

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- In recent times various issues regarding corporate governance are being prevalent in India.
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- In this scenario it is important to know about the corporate governance.
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What does corporate governance mean?

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- The West has associated “governance” with a sense of piloting, steering or directing and oversight and ruled the modern day interpretation of “corporate governance”.
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- The Indian Companies Act 2013 does not define this term, though the accoutrements which help establish the standards of corporate governance in a company, are described in full regalia in the Act.
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- The Cadbury Committee describes corporate governance as the mechanisms, processes and relations by which corporations are controlled and directed.
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- Thus reduced to its bare essentials, corporate governance would mean the governance of companies.
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What are the various issues in Corporate governance?

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- **Getting the Board Right -** Board of directors appointments in India are still by way of "word of mouth" or fellow board member recommendations.

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- It is common for friends and family of promoters (a uniquely Indian term for founders and controlling shareholders) and management to be appointed as board members.
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- **Performance Evaluation of Directors -** Although performance evaluation of directors has been part of the existing legal framework in India, Evaluation is always a sensitive subject and public disclosures may run counter-productive.
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- **True Independence of Directors -** Independent directors' appointment is biggest concern in the corporate governance.
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- The independence of promoter appointed independent directors is questionable as it is unlikely that they will stand-up for minority interests against the promoter.
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- **Removal of Independent Directors -** In India there are instances of independent directors not siding with promoter decisions have not been taken well and they were removed from their position by promoters.
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- Since there is a law that an independent director can be easily removed by promoters or majority shareholders.
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- **Accountability to Stakeholders -** Various general duties have been imposed on all directors, directors including independent directors have been complacent due to lack of enforcement action.
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- **Executive Compensation -** Executive compensation is a contentious issue especially when subject to shareholder accountability.
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- **Risk Management -** Indian companies certainly don’t have a clear idea about the risk management and predictions.
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- As a key aspect of risk management, privacy and data protection is an

important governance issue, but it has been always neglected.
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What measures needs to be taken?

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- Innovative solutions such as rating board diversity and governance practices and publishing such results or using performance evaluation as a minimum benchmark for director appointment are the need of the hour.
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- In a peer review situation, to avoid public scrutiny, negative feedback may not be shared, to negate this behaviour the role of independent directors in performance evaluation is key.
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- To protect independent directors from vendetta action and confer upon them greater freedom of action, it is imperative to provide for additional checks in the process of their removal.
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- Companies have to offer competitive compensation to attract talent, such executive compensation needs to stand the test of stakeholders' scrutiny.
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- The board must assess the potential risk of handling data and take steps to ensure such data is protected from potential misuse.
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Source: Business Standard

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