

Role of Corporate Governance in Sustainable Growth & Development

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ABSTRACT

Growth is the word for which every business aspires for on continuous basis throughout its existence (life cycle). Corporate governance is fundamentally about such questions as what business is for—and in whose interests companies should be run, and how. It's not only the business as an economic unit which want growth but it also extends to the various stakeholders which are in one way or the other connected with the business. Be it the shareholders, employees, customers and above all the society from which business takes its inputs and for which it converts those inputs into outputs for its longer survival. It is the achievement of the sustainable growth and development which keeps the business floating during its various stages of life cycle and which makes the business strong and powerful enough so that it can face the various challenges and exploit the various opportunities provided by the external as well as internal environment and develop itself progressively. Why the business just cannot move on or just survive with just growth or why the sustainable growth is preferred over just growth? An attempt is done to know the different aspects of corporate governance and role of Corporate Governance for sustainable growth and development. Wider issues such as business ethics through entire value chains, human rights, bribery and corruption, and climate change are among the great issues of our time that increasingly cross - cut the rarefied worlds of corporate boardrooms. As a result, a growing proportion of Sustainability' s work has seen the fusion of corporate governance with such wider societal concerns. This paper reviews the increasingly complex cross - connects between the rapidly mutating governance agenda and the burgeoning world of corporate responsibility, social entrepreneurship and sustainable development.

1. Introduction

Corporate Governance is understood as a key element when reaching economic performance and growth enabling to increase the investors' trust. Further, on, it enables to create the structures supporting determination, control and reach of corporate objectives and targets. It provides creation of suitable initiatives for the members of administrative bodies and the management. In accordance with the OECD principles (OECD Principles, 2004) it is assumed that the effectively functioning Corporate Governance system within the company and across the whole economy assists to create the confidence and trust necessary for existence of the market economy. A very wide spectrum of sectors coming under the Corporate Governance also appears when trying to define this term succinctly. Integrated with sustainability, which is defined as corporate strategy, long-term corporate goals are followed along with effectiveness, performance and competitiveness by means of incorporating of economic, environmental and social aspects into corporate governance. Company ownership and control structure are two of the most striking differences between corporate governance systems. Differences in cross-border corporate shareholding bring differences in administrative and control bodies regarding composition, independence, control mechanisms, and so on. Based on the level of ownership dispersion, corporate governance systems can be classified as outsider systems or insider systems. Outsider or market-oriented systems are characterized by highly dispersed ownership: shareholders exercise control on managers' activities through their right to vote, in accordance with their shareholdings. In this sense, the judgment on serving

management originates from the financial market. When the owners are not satisfied, they sell their shares, signaling a state of distrust: this opens up the possibility for a takeover, followed by a change in the board composition. Therefore, the high dispersion of share capital connects corporate success to the maximization of short-term profit, which is usually welcomed by the financial markets and generates approval for the board's decisions. In this context, corporate governance choices tend to favor profit maximization: indeed, this enables the company to satisfy shareholders' expectations for short-term remuneration and to gain their consent. In these systems, the protection of minority shareholders is guaranteed by the market liquidity and the consequent possibility to easily sell the shares. The term sustainability has many definitions, starting from the broadest one included in the Brundtland Report (1987). Corporate sustainability means that companies should consider the future (as well as the present) in their decision-making and actions, with the aim of using their resources for creating value in the end. According to van Marrewijk and Werre there is no specific definition of corporate sustainability; an abundance of definitions exists and each organization needs to devise its own definition to suit its purpose and objectives. The diversity of indicators only highlights the diversity of views about what sustainability means, and what should, therefore, be measured. This approach safeguards the interests of all stakeholders thanks to the joint recognition of economic, environmental and social issues in strategic planning. Corporate sustainability does not mean that value creation for shareholders and their adequate remuneration are less important: the interdependence between economic and socio-environmental

responsibilities is the requisite to obtain consent and resources. In this way, meeting the needs of non-shareholding stakeholders also creates shareholder value and ownership satisfaction, guaranteeing the firm's competitive advantage in the long term. This concept is the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges.

2. Objectives of the Study:

- To analyze the main objectives and key pillars of corporate governance.
- To analyze the role of corporate governance for sustainable growth and development.
- To analyze the different challenges in corporate governance.

3. Corporate Governance Practices Vs Sustainable Growth and Development:

At present companies tend to focus on sustainable development as well as sustainability, which brings with it changes to the corporate culture as well as society. Sustainability has three important dimensions for all companies: economic growth, social responsibility and responsibility for the environment. The social and environmental responsibility, however, cannot become separated from economic growth. Profitability and growth create jobs and wealth; companies have to continue to provide products and services that people need.

The understanding of characteristics of sustainability is the first step in building the ability to prove how expansion of knowledge can be used in support of employers and public interest.

Defining sustainability (IFAC, 2008) sustainability is about:

- Promoting ethical responsibility and sound corporate governance practices;
- Providing a safe working environment in which the health of employees is protected and their opportunities for self-development are enhanced;
- Promoting cultural diversity and equity in the workplace;
- Minimising adverse environmental impacts; and
- Providing opportunities for social and economic development within the communities, we operate.

Sustainability is therefore a strategy of the process of sustainable development. It acquires special importance when the process helps people progress toward sustainability or may, on the contrary, dissuade them from engaging in the process. Sustainability is the ability to sustain the quality of life or the ability to maintain quality, which means that each generation has a responsibility for the quality of life.

4. Key Pillars of Good Corporate Governance:

- **Role and powers of Board:** the foremost requirement of good corporate governance is the clear identification of powers, roles, responsibilities and accountability of the Board, CEO and the Chairman of the board.

- **Legislation:** a clear and unambiguous legislative and regulatory framework is fundamental to effective corporate governance.
- **Code of Conduct:** it is essential that an organization's explicitly prescribed codes of conduct are communicated to all stakeholders and are clearly understood by them. There should be some system in place to periodically measure and evaluate the adherence to such code of conduct by each member of the organization.
- **Board Independence:** An independent board is essential for sound corporate governance. It means that the board is capable of assessing the performance of managers with an objective perspective. Hence, the majority of board members should be independent of both the management team and any commercial dealings with the company. Such independence ensures the effectiveness of the board in supervising the activities of management as well as make sure that there are no actual or perceived conflicts of interests.
- **Board Skills:** In order to be able to undertake its functions effectively, the board must possess the necessary blend of qualities, skills, knowledge and experience to make quality contribution. It includes operational or technical expertise, financial skills, legal skills as well as knowledge of government and regulatory requirements.
- **Management Environment:** includes setting up of clear objectives and appropriate ethical framework, establishing due processes, providing for transparency and clear enunciation of responsibility and accountability, implementing sound business planning, encouraging business risk assessment, having right people and right skill for jobs, establishing clear boundaries for acceptable behaviour, establishing performance evaluation measures and evaluating performance and sufficiently recognizing individual and group contribution.
- **Board Appointments:** To ensure that the most competent people are appointed in the board, the board positions must be filled through the process of extensive search. A well-defined and open procedure must be in place for reappointments as well as for appointment of new directors.
- **Board Induction and Training:** is essential to ensure that directors remain abreast of all development, which are or may influence corporate governance and other related issues.
- **Board Meetings:** are the forums for board decision making. These meetings enable directors to discharge their responsibilities. The effectiveness of board meetings is dependent on carefully planned agendas and providing relevant papers and materials to directors prior to board meetings.
- **Strategy Setting:** The objective of the company must be clearly documented in a long-term corporate strategy including an annual business plan together with achievable and measurable performance targets and milestones.

- **Business and Community Obligations:** Though the basic activity of a business entity is inherently commercial, yet it must also take care of community's obligations. The stakeholders must be informed about the approval by the proposed and ongoing initiatives taken to meet the community obligations.
 - **Financial and Operational Reporting:** the board requires comprehensive, regular, reliable, timely, correct and relevant information in a form and of a quality that is appropriate to discharge its function of monitoring corporate performance.
 - **Monitoring the Board Performance:** The board must monitor and evaluate its combined performance and monitor individual director's performance at periodic intervals, using key performance indicators besides peer review.
- Erosion of ethical & moral values in board members, CEO's & managers.
 - Increasing corruption, bribes & financial scams.
 - Lack of respect for shareholders and low financial disclosure.
 - Inter-Agency disputes in the name of reform efforts.
 - Weak compliance to laws and weak enforcement.
 - Indian investors are also reluctant to access the courts due to investor's financial illiteracy & delays in adjudication.

6. Conclusion

Corporate governance has been proving a very efficient and effective system for our economy and to save the interest of shareholders but some more efficient monitoring and transparent internal audit system, efficient board and management can lead it to effective corporate governance. There is an ongoing need for constant review and course corrections that would keep the country in the pink of health in terms of its corporate excellence by a judicious mix of legislation, regulation and suasion. This task needs to be constantly addressed with growing maturity and competitive compulsions.

5. Effective corporate governance challenges

There are some practices prevalent in the market and in our society, which are posing challenges to effective corporate governance in the country. The major challenges are-

- Domination of family members in the board and just name sake inclusion of independent directors.
- Lack of professionalism in top management.

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