

## Understanding Corporate Governance

### What is the issue?

\n\n

\n

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

\n

\n\n

### What does corporate governance mean?

\n\n

\n

- The West has associated “governance” with a sense of piloting, steering or directing and oversight and ruled the modern day interpretation of “corporate governance”.
- 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.
- The Cadbury Committee describes corporate governance as the mechanisms, processes and relations by which corporations are controlled and directed.
- Thus reduced to its bare essentials, corporate governance would mean the governance of companies.

\n

\n\n

### What are the various issues in Corporate governance?

\n\n

\n

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

\n

- 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.

\n

- **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.

\n

- **True Independence of Directors** - Independent directors' appointment is biggest concern in the corporate governance.
- The independence of promoter appointed independent directors is questionable as it is unlikely that they will stand-up for minority interests against the promoter.

\n

\n\n

\n

- **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.
- Since there is a law that an independent director can be easily removed by promoters or majority shareholders.
- **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.

\n

\n\n

\n

- **Executive Compensation** - Executive compensation is a contentious issue especially when subject to shareholder accountability.

\n

\n\n

\n

- **Risk Management** - Indian companies certainly don't have a clear idea about the risk management and predictions.
- As a key aspect of risk management, privacy and data protection is an

important governance issue, but it has been always neglected.

\n

\n\n

### **What measures needs to be taken?**

\n\n

\n

- 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.

\n

- 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.

\n

- 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.

\n

- Companies have to offer competitive compensation to attract talent, such executive compensation needs to stand the test of stakeholders' scrutiny.

\n

- The board must assess the potential risk of handling data and take steps to ensure such data is protected from potential misuse.

\n

\n\n

\n\n

**Source: Business Standard**

\n

