More teeth for corporate governance

Corporate governance will be strengthened by SEBI's clause 49. The issue of corporate governance has acquired centre-stage as a consequence of foreign investments flowing into India. Overseas investors wish to be reassured that the companies they invest in will not only be managed well, but be required by law to be managed in an open and transparent manner. To ensure this, SEBI has revised clause 49 of its ' listing agreement', to stipulate that at least one-third of the directors on the boards of companies should be independent professionals who are in no way connected to the interests of the promoters. Good corporate governance is vital to integrity and efficiency of financial markets, while poor corporate governance weakens a company's potential and, at worst, can pave the way for financial difficulties and even frauds.

If companies are well governed, they will usually outperform other companies and will be able to attract investors whose support can help to finance further growthCorporate governance implies a well defined, well structured and well communicated system to manage, direct and control the conduct of business of a company. The corporate governance structure specifies the distribution of responsibilities among different elements of the company — the individual board members, board committees, the executive functionaries like the chief executive and chief financial officers — and spells out the rules and procedures for making decisions on corporate affairs. This structure helps monitor the means of attaining the objectives and oversees performance. Investors are assured that the financial resources of the company in which they have invested, are handled in the most efficient manner and corporate wealth is created in within the confines of the law.

Accordingly, the key to corporate governance lies in transparency in decision-making and accountability to safeguard the interests of the stakeholders and the investors. Ultimately all this helps create a self-driven, self-assessed and self-regulated organisation.

The functions of the board of directors now include:

- The corporate as well as the operational strategy
- Policies determining the terms of employment of the top management; its performance evaluation, compensation and succession, etc.
- Determining and propagating the right values and culture in the organization.
- Ensuring healthy governance practices within the organization
- Ensuring co-ordination between the CEO and the top management and balancing the relationship with various stakeholders
- Statutory Responsibilities
- Ensuring legal compliance with ‘ clause 49’ of SEBI’s ‘ listing agreement’

Major changes have been made to the definition of ‘ independent directors’; strengthening the responsibilities of audit committee; improving the quality of financial disclosures and finally; the board as a whole has been tasked with the adoption of a formal code of conduct for senior management and the certification of financial statements issued by the CEO or the CFO. Accordingly, companies are now required to form various committees like a ‘ nomination committee’, ‘ compensation committee’, ‘ governance committee’ and other committees like to adhere to corporate governance. The function of the ‘ compensation committee’ for instance, is to ensure credible and transparent policy in determining and accounting for specific remuneration packages for executive directors including pension rights and any compensation payment. The committee should be in a position to bring about objectivity in determining the remuneration package while striking a balance between the interest of the company and the shareholders.

Similarly, the law requires the nomination committee of the board to be composed entirely of independent directors, who will be responsible for the evaluation and nomination of board members. In India, the responsibilities of ‘ audit committee’ include scrutiny of the company’s annual audited financial statements, appointment of external auditors, interacting with internal auditors and issues relating to internal controls existing in the company. Globally, it is the analysis of the financial reporting process, internal control systems and the overview of the legal and ethical conduct of management as well as the staff that has been received greater focus. Ultimately, corporate governance is the net result of the individual sense of values, the values held in society or part of a society like professional bodies or business associations and finally the system of public governance. India has, by and large, enjoyed a history of compliance to legal and ethical standards in business and Indians strive to be good businesspartners.

Our commitment to ethical and moral standards of business conduct must be capable of withstanding the most rigorous scrutiny.