CORPORATE GOVERNANCE - A STRATEGIC TOOL FOR CHANGING BUSINESS SCENARIO

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INTRODUCTION

In the 19th century, state corporation law enhanced the rights of corporate boards to govern without unanimous consent of shareholder in exchange for statutory benefits like appraisal rights, in order to make corporate governance more efficient. Since that time, and because most large publicly traded corporations in western and European countries incorporated under corporate administration. It has been increasingly securitized into various corporate entities and institutions, the rights of individual owners and shareholders have become increasingly derivative and dissipated. The concerns of shareholders over administration pay and stock losses periodically has led to more frequent calls for corporate governance for changing business scenario.

In the 20th century in the immediate aftermath of wall street crash leads to pondered on the changing role of the modern corporation in business society. In continues to have a profound influence on the conception of corporate governance in scholarly debates today in many spheres of business environment.

Current pre occupation with corporate governance can be pinpointed at two events. The East Asian crisis and American corporate crises, which saw the collapse of two big corporations and lack of governance mechanisms in these countries highlighted their weakness in economics. All these valid reasons will enumerate the corporate sector to survive and to have an performance strategy as a tool for their success in changing business scenario.

CONCEPTUAL BASE

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed administered or controlled. Corporate governance also includes the relationships among the many players involved and the goals for which the corporation is governed. The principal players are the shareholders, management and the board of directors. Other shareholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

It has two dimensions,
1. The processes by which companies are directed and controlled.
2. A field in economics, which studies the many issues arising from the separation of ownership.

It is used to monitor whether outcomes are in accordance with plans and to motivate the organisation to be more fully unformed in order to maintain or alter organizational activity. Corporate governance is the mechanism by which individuals are motivated to align their actual behaviours with the overall players.

STRATEGY FORMATION FOR SURVIVAL AND GROWTH

Corporate governance issues are receiving greater attention in both external and internal segments and as a result of the increasing recognition that a firm’s corporate governance affects both its economic performance and its ability to access long-term, low-cost investment capital. Numerous high - profile cases of corporate governance lead and have focused the minds of all in general to the integrity of financial markets, although it is very obvious that should present business failures, or that it is possible to provide a guarantee against mistakes and omissions.

CORPORATE GOVERNANCE AND FIRM PERFORMANCE - A STRATEGICAL TOOL

In its ‘global investor opinion survey’ of over 200 institutional investors first undertaken in 2000 and updated in 2002, McKinsey found that 80% of the respondents would pay a premium for well-governed companies. They defined a well-governed company as one that had mostly out-side directors, who had no management ties, undertook formal evaluation of its directors, and was responsive to investors’ requests for information on governance issues. The size of the premium varied by market, from 11% for Canadian companies to around 40% for companies where the regulatory backdrop was least certain (those in Morocco, Egypt and Russia).
Other studies have linked broad perceptions of the quality of companies to superior share price performance. In a study of five year cumulative returns of Fortune Magazine’s survey of ‘most admired firms’, Antunovich et al found that those “most admired” had an average return of 125%, whilst the ‘least admired’ firms returned 80%. In a separate study Business Week enlisted institutional investors and ‘experts’ to assist in differentiating between boards with good and bad governance and found that companies with the highest rankings had the highest financial returns.

On other hand, research into the relationship between specific corporate governance controls and performance has been mixed and often weak.

BOARD COMPOSITION

Some researchers have found support for the relationship between frequency of meetings and profitability. Others have found a negative relationship between the proportion of external directors and firm performance, while others found no relationship between external board membership and performance. In a recent paper Baghat and Black found that companies with more independent boards do not perform better than other companies. It is unlikely that board composition has a direct impact on firm performance.

REMUNERATION / COMPENSATION

The results of previous research on the relationship between firm performance and executive compensation have failed to find consistent and significant relationships between executives’ remuneration and firm performance. Low average levels of pay performance alignment do not necessarily imply that this form of governance control is inefficient. Not all firms experience the same levels of agency conflict, and external and internal monitoring devices may be more effective for some than for others.

Some researchers have found that the largest CEO performance incentives came from ownership of the firm’s shares, while other researchers found that the relationship between share ownership and firm performance was dependent on the level of ownership. The results suggest that increases in ownership above 20% cause management to become more entrenched, and less interested in the welfare of their shareholders.

Some argue that firm performance is positively associated with share option plans and that these plans direct manager’s energies and extend their decision horizons toward the long-term, rather than the short-term, performance of company. However, that point of view came under substantial criticism circa 2005-2006 in the wake of various security scandals including mutual fund timing episodes and, in particular, the backdating of option grants as documented by University of Iowa academician Erik Lie and reported by James Blander and Charles Forelle of the Wall Street Journal.

Even before the negative influence on public opinion caused by the 2006 backdating scandal, use of options faced various criticisms. A particularly forceful and long running argument concerned the interaction of executive options with corporate stock repurchase programs. Numerous authorities (including U.S. Federal Reserve Board economist Weisbenner) determined options may be employed in concert with stock buybacks in a manner contrary to shareholder interests. These authors argued that, in part, corporate stock buybacks for U.S. Standard & Poors 500 companies surged to a $500 billion annual rate in late 2006 because of the impact of options. A compendium of academic works on the option/buyback issue is included in the study Scandal by author M. Gumport issued in 2006.

A combination of accounting changes and governance issues led options to become a less popular means of remuneration as 2006 progressed, and various alternative implementations of buybacks surfaced to challenge the dominance of “open market” cash buybacks as the preferred means of implementing a share repurchase plan.

CONCLUSION

To conclude, corporate governance should not and cannot solely be a matter for the government and regulators. No matter how ample the systems and policies are, ultimately they are only as good as those who exercise them. All have an important role to play in the corporate governance regime to create a persistent strategic performance tool and also help in reform in improving accountability.

REFERENCES