CORPORATE GOVERNANCE & BUSINESS ETHICS:

CHALLENGES & RESPONSIBILTES

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Abstract:

Corporate Governance and Business Ethics are important to better understand the complex and dynamic relationship between organizations and their stakeholders. The relationship between business ethics and corporate governance has always been enigmatic. Business itself cannot be ethical, only the managers and corporate strategies can appliance ethics within the structure of the business strategy .The role of corporate governance is to set out the rules within which an organization must operate and to ensure those rules are observed whereas the role of Business Ethics in Corporate Governance refers to the manner in which ethics is applied during the process of running or administering the organization. Therefore Business Ethics in Corporate Governance can be practiced as the management of the organization, which may be government deals or business concern with internal and external issue. The growing demand of corporate governance arises due to conflict of interest between different stakeholders. Different stakeholders have different point of views and goals as well as less knowledge of each other preferences. There are other expression to the corporate governance subject, such as the stakeholder's point of views and the corporate governance models around the world. The focus on Corporate Governance has heightened since the past few decades the whole world has seen the corporate scandals of big companies such as Quest communication, Enron, Tyco, WorldCom, Satyam computer Service. These Corporate Collapse have leads to the growing volume of academic and practical research in this area. This article discusses in detail definition and meaning of corporate governance and addresses its effects on corporate performance & economic performance. This article explores the role of ethics in corporate governance and also addresses how ethics can make corporate governance more meaningful. This article also focuses on Challenges and responsibilities of corporate governance.

Key Word: *Corporate Governance, Business Ethics, Board of Directors, Stakeholders, and Directors.*

Introduction

Corporation is a group of internal and external stakeholders, such as customers, vendors, partners, investors, employees, society and government. A corporation should account for its ethical performance and duly reports it to relevant stakeholders. In today's globalized world it is important for the corporation to access global pools of capital, essential to attract and retain the best human capital from various parts of the world, need to partner with vendors on mega collaboration and use to live in harmony with community. With any Corporation the structure of Corporate Governance commence with the laws that impacts the operation of the company within the area of jurisdiction. Companies cannot legally engage without a corporate framework that meets the minimum requirements set by the proper government jurisdiction.

Corporate Governance is about ethical conduct in business. Ethics is concerned with the code of values and principles that enables a person to accept between right and wrong and therefore, choose from alternate course of action .Acc to James Wolfenshon President of WB, (1999) "The proper governance of companies will become as crucial to the world economy as the proper governing of countries." Good Corporate Governance makes Companies stronger, more efficient and accountable and supports fulfillment of good environmental and social practices. Business ethics and Corporate Governance are two important aspects that impact a company and how it operates. Business Ethics express characteristics, values and principle that companies pursue when regulating business in the economy. CorporateGovernance is the internal composition that a company designs and appliance to govern and protect those invested into the company. The relationship between Corporate Governance and Business Ethics occurs from an organization's owner and executive manager who construct the governance and determine which ethical principle employees will follow. Corporate Governance is nothing but the moral and ethical or value framework under which corporate decision are taken. Today corporate governance is said to be complex and patchwork, consisting of law, politics, public institution, a code of ethics, professional association and regulations.

Corporate Governance

Corporate Governance has become an important aspect in finding company's strengths and functions (Norwanietal, 2011) .It provides a framework to auditor the performance of the company. A distinction can be tie between corporate governance in the board and in the narrow sense of the definition (James, 2001 p.236, Rossuw etal.2002). In boarder sense Corporate Governance can encompass the combination of law, regulations, listing rules and voluntary private sector practices that enable the corporation to attract capital, perform efficiently, generate profit and meet both legal obligations and general societal expectations. In narrow sense Corporate Governance deals with formal system of accountability of the directorate to the corporation.

Defining Corporate Governance

Consider the definition of Corporate Governance

Corporate Governance is a structure in which rights and responsibilities are shared among shareholders, owners and mangers of the company. The Corporate Governance structure will determine responsibilities; rights and privileges are enlarged to each of the corporate participants and to what degree each participant may savor those rights. (Businessdictonary.com, n.d) Normally the foundation of any system of corporate governance will be decided by several factors, all of which help to form the final form of governing the company. Good corporate governance should provide good information and suggestion to the board of directors and the management to achieve the firm objectives and facilities effective control (OECD, 2004). According to Cadbury committee (1992) has defined Corporate Governance as the system by which companies are directed and controlled. Organization for Economic Cooperation and Development (OECD, 2004) defined corporate governance as the relationship among the management, board of directors, controlling shareholders, monitoring shareholders and other stakeholders. Gramling et al.(2004) and cohen et al (2004) documented that there are four important mechanisms of corporate governance include management, board of directors, internal audit functions and external audit. Therefore, the role-play by these key mechanisms is essential to the success of good governance .Acc. to definition of Shleifer and Vishney (1997) "Corporate Governance deals with the way in which suppliers of finance to corporations assure themselves of getting a return on their investment"(1997, P.737). According to Gillibrand (2004), the Corporate Governance framework deals with rules and procedures that are used for making decisions on corporate affairs. How a company is influenced in terms of the institutional systems and and code meant to ensure accountability and sound ethics .The concept encompasses a variety of issues, including disclosure of information to shareholder and board of members, remuneration of senior executives, potential conflict of interest among manager and directors, supervisory structure etc (The Financial Times, 2013).

These definitions point the responsibilities and roles of relevant stakeholders. The main role and response of board of directors are to provide accountability, transparency and fairness in its interactions with stakeholders.

Corporate Governance is an arrangement of operating, controlling and structuring a company with a view to joining long term strategic goals that fulfill the expectations of creditors, shareholders, suppliers and customers while operating in compliance with regulatory and legal requirements. Thus, Corporate Governance is described as the set of rules and regulations that are enclosed to protect corporate values and shareholders interest. Good Corporate Governance guidance's companies operate more conveniently, improve access to capital, and mitigate risk and safeguard against mismanagement. It forms companies more accountable and transparent to investor and gives them tools to respond to stakeholder concern. The Corporate Governance structure should recognize the rights of stakeholders as settled by law and encourages active cooperation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises.

Ethics

Ethics is a set of principles of right conduct or a system of moral principles. Definition of the ethics derived from Fisher (2004) who cites that ethics mean doing the right thing. Ethics is concerned with code of values and principles that facilitate a person to choose between right and wrong and therefore select from alternative course of action. The principal of ethical reasoning are useful device for sorting out the goo and the bad components within complex human interaction.

Importance of Ethics to the organization:

- Ethics is the keystone of corporate governance.
- Ethics insure the sustainability of a business.
- Good Corporate fame is built on a solid base of ethical culture.
- A culture of trust must be built on a corporate structure of ethical principles, which are transparency, openness, competence, integrity and benevolence.
- Ethics play a primary role in avoidance of fraud. Fraud prevention becomes a shared responsibility among the members of the organization.
- Ethics play major role in cost and risk reduction. Companies which recognize the importance of ethics will need to concentrate less time in protecting themselves for internal and external behavioral risks, especially when backed by sound governance system and independent research.

Business Ethics

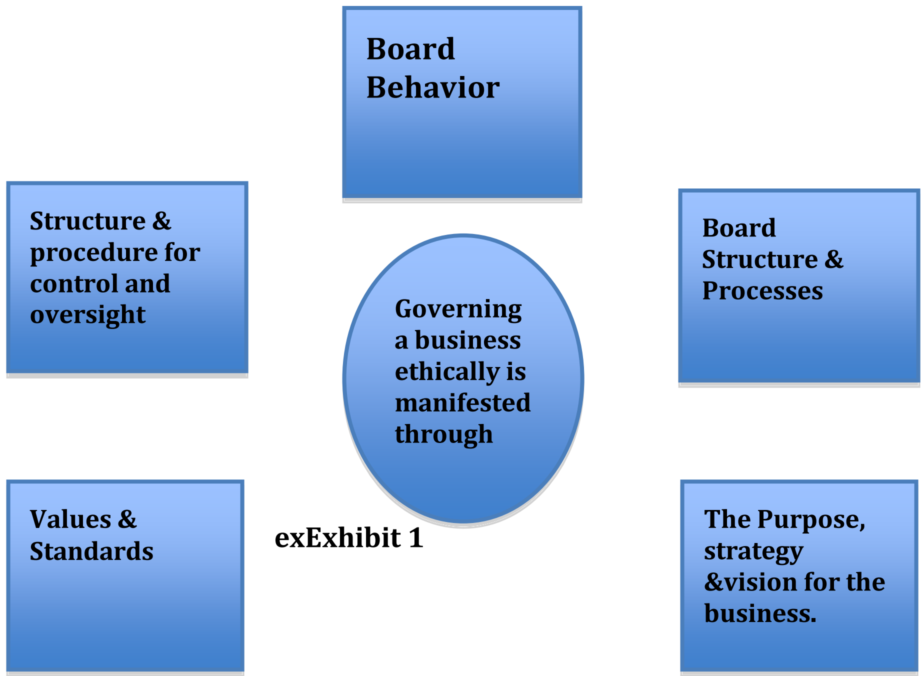
As Velasquez (2012:1) reports, " Business Ethics is applied ethics. This signifies taking principles, morality and right conduct and apply these in business context. Applied business ethics can be understood as:" A specialized study of moral right and wrong that consider on moral standards ad they apply to business institutions, organizations and behavior." (Velasquez, 2012:15)."Business Ethics is the acknowledged set of moral values and corporate Standard of conduct in a business organization. This defines of what this actually mean can vary from one organization to another."(Merchant2012) .The definition indicates that in the business world, ethics is the study of morally appropriate behavior and decision examining what should be done. (Chumir Ethics Foundation, n.d). Business Ethics is the application of general ethical ideas to business behavior. Business ethics is the art and discipline of applying ethical principal to appraise and solve complex moral dilemmas. Business Ethics affirms that business can be and have been ethical and still profit making. Business ethics also associate to the way the board conduct itself and the way board members adopt to behave in carrying out their role. High level of skills and aptitude are required of the board, with directors applying proper care in their duties, upholding high standard of integrity and acting fairly. The culture of an organization will be strongly determined by the nature as well as the quality of the leadership from the board will generally result in deviation in ways of behaving and working, with practices determine from employees personal choice and habits continued from previous employment rather than being ethically consume. A board is answerable for determing and communicating the values and standards of the business and for certify that the policies, procedures and control in place act to embed rather than balk, ethical values throughout the business.

Exhibit 1 classify the means by which a business is governed ethically .The board sets the principal through five means and all these elements need to be in place in order for a board's commitment to ethics to be put fully into practice

Board Behavior	The board member accomplishes their duties in a way that reflects ethical values such as integrity, respect, fairness and honesty.
Board Structure and Processes	Which Facilitate ethical behavior, avoid unethical ones (such as unmanaged conflicts of interest) & insure proper accountability e.g. appropriate board composition, committees, decision-making procedures.
Purpose, Strategy and Vision for Business	The board sets the goal for the business and what the business belief for its strategic decision reflects the business core values.
Values and Standard	The board coherent and ensure the application of the standards of behavior it expects for business practice, the way business will be done and its role in society.
Structure & Procedures for oversight& control	Mechanism of delegation and control are helpful to ethical business practices.

Ethical Aspects Of Corporate Governance

Exhibit 1



Relationship Between Business Ethics And Law

Corporate Governance extended beyond corporate law. It's objective is not mere fulfillment of legal requirements but insuring commitment on managing transparently for maximum shareholder values. As competition raises, technology pronounces the deal of distance and speed up communication, environment also changes .In this dynamic environment the system of corporate governance also need to expand, upgrade in time with the promptly changing economic and industrial climate of the country. Business Ethics and the law are two interdependent terms that can exit independently of each other when it comes to business and intersect in various vital circumstances. The sense for this intersection can be attributed to the fact that most times ethical consideration are also legally enforceable. This is not invariably the case because some ethical considerations in business are unwritten code based on basic morality that is assumed to be universal. Business Ethics and law also intersect in the area of false representation where someone falsely presents a material fact to another party with the objective of getting the person to part with something valuable. In some countries there are strict laws constituting the minimum wage that an employer of labor is legally mandate to pay his or her employees. This does not, however, stop some employers from considering for ways to prevent this law. In such an instances, an unethical employer might employ some people based on their circumstances and use this as a means for paying them less than they deserve for the service they provide.

Role Of Business Ethics In Corporate Governance

The increased focus on ethics as segment of corporate governance was determined by the Cadbury (1992) and Hampel (1997) Committees (in the UK), the OECD (1998) in Europe, the provision of the Australian Stock Exchange (ASX, 2003,Bosch, 1995; Hilmer, 1993) and Governance Standards by Standards Australia International (2003), Francis (2000,p.9) characterized the connection between governance and ethics. Corporate Governance, as a term, has come to signify good in the non-moral and in moral sense. Non- moral applications consist of efficient decision-making, strategic planning and appropriate resource allocation and so on. And in moral sense good corporate governance has come to be seen, as developing an ethical climate that is both properly appropriate in itself, and consequentially relevant in that ethical behavior in business is reflected in fascinating commercial outcomes. The role of business ethics in corporate governance specifies the way in which ethics is applied during the process of governing and running the organization. To this edge, business ethics in corporate governance can be applied in the manner the management of the organization, which may be a business concern or a government, accords with both internal and external issues. An example of the role of business ethics in corporate governance is the aspects in which the management of a company accords with the concern of the selection of employees. The ethical way of selecting employees should be based on criteria that incorporate the possession of the imperative human capital, rather than on cursory characteristics, such as nationality or physical lure. Business ethics in corporate governance can also be view in the way in which the management of a company reveals with individuals and external businesses, such as distributors, business partner and consumer. It may also be applied to the way in which a company describes with host communities and the society at large. One of the ethical reviews that the management of an organization must necessarily address is the concern of issue of important corporate behavior, including topics like giving back to the community and ensuring that they do not pollute the environment unnecessarily. Where a company is directly or indirectly important for the pollution of the environment – either through its own actions or the actions or the actions of any body to it –the process of business ethics in corporate governance will insure that the company will make right decision in terms of addressing the problem. For example, an oil tanker that spills crude oil into the sea will present environmental threat that a organization will be both legally and ethically bound to acknowledge to by purifying the spill.

Literature Review

The approach corporate governance actually gives a vision regarding the code of conduct of the company's business. Hilb (2002) indicate that good corporate governance is a union between financial and personal success of a corporation. This consists of the management style, the accounting principles, the model of ethical behavior, and the openness of communication. Mir & Nishat (2004) analyzed that corporate governance is the process and framework through which firm's business and affairs are influenced by enhancing business prosperity and corporate accountability with the ultimate objective of enhancing shareholder's wealth. Macey (1998) conducted a research study to identify the need for corporate governance principles because of incomplete nature of corporate contracts and the right to control the management and agency cost. Becht, Bolton & Roell (2002) have determined some factors, which can associate to the limelight of corporate government as a central issue. They state cases such as worldwide wave of privatization, growth of private savings and the takeover wave of 1980's, which have put the prominence on corporate governance in developing markets. Beside, the enormous takeover wave in the U.S. during the year 1980's and in Europe in the 1990's has further fulled the public debate on corporate governance. One aspect of corporate governance is that good corporate framework increases firm valuation and performance while it lower cost of capital and financial fraud. Brow and Caylor (2004) indicated in their study that good corporate governance as a measured by director compensation, is highly correlated with good performance rating of 2327 firms and finally find out that there is a statistically signicificant positive relationship between corporate governance rating and different industry – adjusted performance measures. Maher and Anderson (1999) in their study argued that the most important goal of firm from the shareholder's point of view is wealth maximization. They found that firm performance has a positive relation with corporate governance. Firms that do not adopt cost minimizing corporate governance mechanism are usually less effective and would fail. UN, Chris Mallin (2003) observe that transparency and Accountability were two key corporate governance qualities approved for reformed in many countries that have been affected by the lack of investor confidence. Ehikioya (2009) demonstrated in their study that a well defined and working corporate structure help a firm to bring investment, raise funds and strengthen the foundation for firm performance and good corporate governance shelters a firm from amenability to future financial distress. Good corporate governance is a firm authority for healthy securities markets in the long run. It reduces authority and violation of market rules and there by help assure stability in the financial market. This enhances public confidence in firm as well as attracts foreign investment. (Pettman, Lamjav, 2009). Researcher advises that, corporate governance structure should ensure equitable treatment of all the shareholders, which also includes minority and foreign origin equity holders. Nestor (2000) demonstrated in his study, the board should be the main means for effective monitoring of the administration and for providing strategic supervision to the organization. Also, good corporate governance holds management accountable to board and boards accountable to the owner and other stakeholders. (Al-Haddad et.Al.2011).

The Financial Aspects of Corporate Governance:

"Corporate Governance is a structure by which companies are directed and controlled. The constraint for governance of the companies is on the Board of directors. The shareholder's aspect in governance is to authorize the directors and the auditors and to compose themselves that an suitable governance system is in place. The importance of the directors consist of atmosphere the company's strategic aims, to maintain the leadership to put them into effect, to inspect the management of the business and to report to shareholders. The Board's actions are dependent to regulations, laws and the shareholders in general meeting:"

Principle

The Principal components of good corporate governance have trust, honesty and integrity, openness, accountability, performance orientation and commitment to the organization restraint and mutual respect. Important thing is how the management and directors compose a method of governance that concerning the values of the corporate stakeholders and then figure out the method periodically for its effectiveness. Particularly, the prime executives should carry their duties ethically and honestly, especially concerning the actual or predicted disputes, and disclosure in financial reports.

The Principles that are established for corporate governance are:

Roles and Responsibilities of the board
A variety of skills and understanding is needed by the board of directors to be strong to manage various business problems and should have the potential to test and analysis the management performance. It should have an consecutivelevel of commitment to fulfill its duties and responsibilities.

Rights and equality in treatment of shareholders Firms should honor the rights of shareholders and assist them to study their right. Organizations can help them by effectively communicating information that is available,understandable and which strengthen shareholders to take part in meeting organized.

Ethical Behavior and integrity
Responsible and ethical decision making is not only important for public relations but also mandatory element in risk management. Organizations should set up a code of conduct for their employees and directors, which develop ethical and responsible decision-making .It is important to understand that dependence by company on the ethics and integrity of individuals will lead to possible failure. Because of which, many organizations provide Compliance and Ethics Programs to minimize the risk that the firm.

Interests of other stakeholders
Firms should observe that they have law associated obligations and other obligations to all the stakeholders.

Transparency and Disclosure
Organizations should illustrate the code of duties of board and management to implement shareholders with a particular level of dependence and trust ability. Organizations should also maintainprocedures to protect and certify the credibility of the company's financial reporting and analysis. The material things concerning the organization should be revealed, balanced and routine to provide that all investors have approachto accurate information.

Corporate Governance And Firm Performance:

The ultimate objective of the firm is to maximize the shareholders wealth and corporate governance has to be seen as a mechanism to get this objective. Many Corporate Governance reforms were made with aspect to increase investor confidence in their capital markets, which in turn increases firm achievements. Reports produced on corporate governance like the Cadbury, Hampel, Greenbury and Higgs in the UK, Bosch reports in Australia, the Business Roundtable reports in the U.S. and OECD principles of corporate governance (Haniffa&Hudaib 2006). Furthermore Khurram Khan et al. (2011) examine the effects of corporate governance on firm's act of Tobacco Industry of Pakistan by making use of data as from the year 2004 to 2008. The result demonstrated that there is positive and strong impact of corporate governance firm's performance. Muhammad Azam et al (2011) inspected the impact of corporate governance on the performance of firms fro the gas and oil sector of Pakistan .A piece of 14 gas and oil similar firms was taken for the period of 2005 to 2010.The data show that corporate governance has positive and important impact on firm's performance and it's concluded that the performance of a firm can be increased by developing the corporate governance framework. Most of the factual work for analyzing possible relationship between corporate governance and firm performance is done for single supervision. For U.S. firms a broad measure of corporate governance Gov-Score is prepared by (Brown & Caylor 2004) with 51 factors, 8 sub categories for 2327 firms based on dataset of institutional shareholders service (ISS). Their findings demonstrate the better-governed firms are comparatively more profitable, more valuable and pay more cash to shareholders (Gomper, Ishi, Metric, 2003).Brown& Caylor (2004) organized a study tilted "Corporate Governance And Firm Performance". The study inspected whether firms with weaker corporate governance perform more poorly than firms with stronger corporate governance .It was construct that firms with weaker corporate governance performed more poorly. There is a positive relationship between corporate governance and firm performance .Acc to Maher & Anderson (2002) firms that do not endorse cost minimizing corporate governace mechanism are less adequate and will be taken over or replaced in the long run. Current knowledge on corporate governance envisions that good corporate governance increases firm valuation and firm performance and reduces the cost of capital and fraud. A generally accepted statement is that good corporate governance results in lower cost of capital .One interpretation is that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital. There are also documentary information propose that the relationship between corporate governance structure and firm performance can either be positive (Morcket al. 1989), negative (Lehman &Weigan 2000) or non (Burkar et al. 1997), (Bolton & Von Thadden 1998).

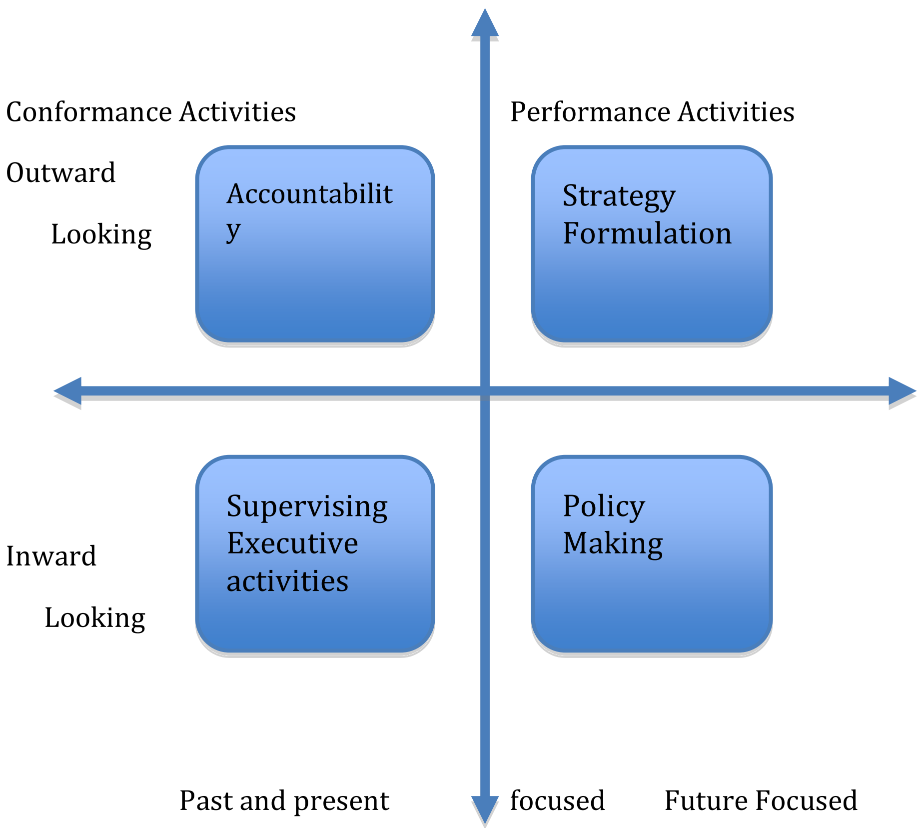
Challenges of Ethics And Corporate Governance

There are several issues in corporate governance principles like:

- The freedom of the entity's external auditors and the standards of their audits
- Internal auditors and controls
- Overview of the preparation of the entity's financial accounts.
- Management and prediction of risk
- The resources made available to directors in carrying out their duties.
- Review of the compensation policies for the chief executive officer and other top executives
- Dividend policy of the organization.
- The method in which individuals appointed for the position of the board.

Ethics is the essence of corporate governance and management must reflect accountability for their actions on a global community scale. Business itself can't be ethical, only the manager and corporate strategists can appliance ethics within the structure of the business strategy. Corporate ethics and shareholders ambition for profitability are not always adjusted and it is the duty of executive to insure ethics repudiate profitability .In its simplest form corporate ethics is a legal matter eternal by law protecting worker's right and deserving compensation is a top priority for management. Corporate Governance and ethics becomes more challenging with the indirect assumptions of particulars practices, making it important to determine the way in which certain operations may negatively affect the community at large. Managers are the primary decision makers and therefore must hold themselves accountable for the way in which a business accomplish and modify stakeholders, shareholders, employees and the community at large. Corporate Governance is the strict obedience to business ethic on professional level. The diagram features the primary duty of corporate managers; Accountability. Understanding the rules and regulations, along with societal and personal assumptions of ethical actions, is an actually critical and fundamental interest for all managers. The complexities and authority of running a business and managing employees is the first preference for managers, as it holds the highest impact, both personal and fiscal for all parties involved.

Corporate Governance Overview



The responsibilities in corporate governance apply largely to accountability and ethical strategy.

Furthermore, ethics comparison with the basic assumption of capitalism and the demand of shareholders: profitability. Therefore, the most difficult determination in corporate governance – those at the ethical level – must be made through the more complex assessment of corporate, social and personal values.

Corporate governance, despite some small efforts from various quarters, remain doubtful and often misunderstood phrase. For a while, it was confined only to corporate management. It is something much wider, for it must include a just, benevolent and transparent administration and attempt to meet certain well-defined, written objectives. Corporate governance must go far beyond the law. The Quantifiable Elements of managerial and financial disclosure, the degree to which the board of director exercise their responsibilities and the assurance to run a transparent organization – these should be constantly evolving .The Board is responsible for the efficient handling of the corporation. That responsibility cannot be relegated to management. In India, the new corporate culture to follow code of good practices and adhering strictly to them, is emerging and is likely to prevail for long.

The 2008 Financial Collapse

Complexities authorize to develop, as the ethical understanding within an economic system becomes more practical. The 2008 financial collapse is a commendable and horrible example of absolutely what can go wrong and why corporate governance and ethics is of such priority to both a business and the society in which it operates. Prominent up to the mortgage backed security fallout of 2008, banks and investors begin to compute profitability over ethics. Banks eliminate certain rules and regulations (though the government did as well), permitting employees to sell mortgages that were unlikely to repaid. Following this, upper management grant it fit to package these risky securities into bundles and sell them as safe investment (though they were in fact risky derivatives), in order to appropriation more value. This is a simplified and small analysis of sophisticate issue; it shortly describes how corporate management saw each echelon of leadership ignore the core duty of securing ethical standards in lieu of capital gains. Management is at lapse for this indiscretion; it was a crash in corporate governance. The 2008 collapse is a implication that managers must keep in mind that their primary goal for shareholders is to maximize profits, while their primary goal to the community at large is to carry products without conflicting on that community. Managing employees responsibly and inserting their well being first is an essential step in this process, as is considering the spacious result of opening a new factory that opposeor selling a highly unhealthy food product. Managers must be answerable because business as a whole can't and this responsibility towards integrity lies at the hear of management.

Mechanisms And Controls

Corporate Governance mechanism and working are designed to minimize the failures that arise from moral hazard and adverse selection. For example, to monitor manager's behavior, an independent third party attests the accuracy of data provided by management to investors. A model control system should regulate both motivation and ability. Internal corporate governance controls monitor activities and then take corrective action to accomplish the organizational goals. Example include:

Power Balance

The balance of power is very common; require that the President be a distinct person from the Treasurer. This usage of spilt of power is further developed in companies where separate divisions check and control each other's actions. One group may propose company-wide administrative changes, another group review and can prohibition the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met.

Monitoring by the board of directors

The board of directors, with its legal authority to hire, fire and compensate top management, secured invested capital. Regular board meetings allow potential problems to be identified, discussed anddeflect. Moreover, the ability of the board to monitor the firm's executives is a function of its approach to information.

Executive directors possess knowledge of the decision making process and therefore indicate senior management on the basis of the quality of its decision that lead to financial performance outcomes.

Remuneration:

Performance- based remuneration is made to relate some proportion of salary to individual performance. It may be in the form of cash or kind payments such as shares and share options, or other benefits. Such stimulus schemes, however, are compassionate in the sense that they provide no mechanism for prohibiting mistakes or strategicbehavior, and can biased behavior.

Internal Control Procedures and Internal Auditors

Internal control procedures are policies governed by board of directors, audit committee, management and other personnel to granted reasonable trust of the entity accomplishing its objectives related to certain financial reporting, operating competence and consent with laws and regulations. Internal auditors are people within an organization who test the design and fulfillment of the entity's internal control procedures and the reliability of its financial reporting.

External corporate governance encompass the controls external stakeholders exertion over the organizations. They include:

- Competition
- Debt Covenants
- Demand for and assessment of performance information (especially finical statements)
- Government regulations
- Managerial labor market
- Media Pressure
- Takeovers

Benefits Of Corporate Governance

Good corporate governance has a positive effect on:

- Share valuation
- Risk assessment
- Reduction of market volatility

Good corporate governance

- Reduce the cost of capital
- Increase the pool of investors
- Improvement management accountability and performance

Other benefits of corporate governance

- Investment (direct and portfolio)
- Growing export markets (good and services)
- Transfer of technology & "know-how"
- Economic policies that foster entrepreneurialism
- A government that can keep corruption under control-or is at least trying its best
- An increasingly credible set of laws and regulations governing economic interaction
- Ongoing capacity building within government and legal institutions (including the judiciary)

The Stakeholders

General

A corporation savors the status of a separate legal entity; however, the formation of a public listed company is such that its success is reliant upon the performance of a contribution of factors enveloping number of stakeholders. A 'stakeholder' is a person (including an entity or group) that has an interest or involvement in a business or enterprise though not undoubtedly as an owner. The ownership of listed companies is enclose of a large number of diversified minds.

Hence, the shareholders to agents called the board of director'salternate management and control. In order to achieve maximum success, the board of directors is further cooperated by managers, employees, contractors, creditors, etc. Therefore it is essential to determine the importance of stakeholders and their rights.

Communication with stakeholders is treated to be an important feature of corporate governance as cooperation between stakeholders and corporations allow for the formation of wealth, jobs and sustains understandingof financially sound enterprises. It is the board's duty to granted a balanced valuation of the company's position when reporting to stakeholders. Both positive and negative condition of the activities of the company should be presented to give an open and clear account thereof.

Shareholders:

A shareholder is not authoritative for managing corporate activities as responsibility for corporate strategy and operations is assigned with the Board and the management team. Shareholder right must, therefore, target on issues such as the election of the board, improvements to the company's organic documents, approval of extraordinary transactions in addition to basic concernsstated in the companies authorization and internal company documents. In order to exercise these rights shareholder cooperation is essential in general meetings. Shareholders, including institutional investors, should carefully consider the costs and benefits of apply their votes. A shareholder must be frequent with the rules that govern shareholder meetings so that he/she may effectively vote. Dates, locations and agendas of general meetings annexed with the issues scheduled to be examine must be ready for objective of allowing the shareholders a familiarity of the subject so that they may raise question and may also be able to place items on the agenda. All shareholders should receive equitable treatment, including minority and foreign shareholders and all shareholders should be able to obtain effective amendment for violation of their rights.

Directors

The primary responsibility for the administration and achievements of a company lies with the directors. The directors administrate the company on behalf of shareholders and their powers and duties are coated in the statute.

Employees

All employees have some responsibility for usage of adequate internal control procedures as part of their accountability for achieving objectives. They by and large should have the necessary knowledge, skills, information and command to accomplish the organization. This will require an understanding of the company, its objective, the industries and markets in which it behave, and the risks it faces. Their aims towards these requirements will assignpositively to the performance of the company and success will cover job stability and satisfaction. A protected work environment and one had protected and safeguards the rights of employees are a means by which to obtain optimum levels of performance. The code depends upon a statement of ethics and business practices must be adapted and circulated annually by the board of directors of every listed company to authorize a standard of conduct for directors and employees.

Creditors:

Contractual stakeholders like customers, contractors and sub-contractors are essential for any corporation. A relationship based on trust evolves between the corporation and such stakeholders and it is normal, curiously where transactions are frequent, for credit to be extended. Past experience with the companyprovides the basis for the development of such trust; however a framework that protects the interest of the creditor is fundamental in instances where the trust has yet to evolve or in the event of disputes, which may arise. When extending credit, the creditor must be satisfied and convinced that an active and speedy system for recoveries has been defined in order to provide amendment if the need arises.

Examples

The Corporations world has been openly chastised for developing their firm's bottom line at any moral or social cost. Ethics necessarily "refers to the issues of right, wrong, fairness and justice." Examples such as Enron, WorldCom and Conrad Black tested society's perspective on sound ethical business and the link to whatSociety sees as "good" governance practices. Although the controversiesassociate issues matched in variety only by the types of companies, they all virtually connect some form of abuse of stakeholders trust.

Example of "Good" Corporate Governance: INFOSYS and TOYOTA

Infosys named best Indian company in Corporate Governance

Infosys Technologies has been named as the best company in India in terms of Corporate Governance. Establishment on the theme that corporate governance is both an art and a science. In Infosys basis for corporate governance standards is the combined code principles of good governance and code of best practice imitative by the committee on its final report and from the Cadbury and Green bury reports. Besides, the white paper on corporate governance in Asia composed by the Organization for Economic Cooperation and Development (OECD) has also been a base for the action.

Companies were encouraged to present their annual results in complying with best practices. In addition, associating companies were asked to give in their compliance to best practices in such areas such as composition of board of directors, which was 20% weighted; audit committee (15%); remuneration committee (15%), risk management committee (15%), nomination committee (15%), corporate social responsibility (10%), investor relations (5%) and digital communications (5%). The scores are then weighted and combined with the score accomplished in the presentation part of the process with an 85%/15% weighting between compliance and voting by the board of editors

Another example of good corporate governance: TOYOTA

Toyota is all around leader in automotive sales; technology and production while also owing one of the world's most recognizable and highly value brands. There achievements is the innovative and groundbreaking production arrangements made achievable by the company's recognition of the value of employee empowerment. Employee involvement is defined as "consisting of a variety of systematic methods that empower employees to participate in the decisions that affect them and their relationship with the organization." At Toyota, the company has employed these proven techniques of co-determination to encourage employee, and supplier involvement in their decision making process, since these practices "help improve both the ability and attitude" of stakeholders. In fact, one of the guiding principles of Toyota requires the company to "foster a corporate culture that enhances individual creativity and team work value, while honoring mutual trust and integrity.

Example of "Bad" Corporate Governance: ENRON, WORLDCOM, SATYAM.

ENRON

Many companies are involved positive and negative risk that it takes. Enron was a company caused by poor corporate governance. It has also triggered a flood of legislative and regulatory changes and codes of conduct across the developed and emerging worlds to improve systems for insuring that public companies are run properly in shareholders interest. The situation Enron faced as a company was alleged corporate fraud. It responded by ensuring that the company rules and policies were updated with the standard set by Sarbanes-Oxley requirements. As a result, Enron is compelled to go back to its basic fundamentals where it laid its foundations. Enron was a financial scandal that were reveled in the late 2001.After a series of revelations involving irregular accounting procedures bordering on fraud, perpetrated throughout the1990s, involving Enron and its accounting firm Arthur Andersen. Enron filed for bankruptcy on December 2,2001.Enron's Devastation occurred after it was revealed that much of its profits and revenues were the result of deals with special purpose entities. Enron as a company had many unsolved problems dealing with financial disputes. The company had a corporate culture that encouraged its staff to influence public policy–makers on the deregulation or privatization of the U.S. (and world) energy sector. Second, the company both instructed and led its accounting firm into improbable financial transactions, which ultimately caused the collapse of Enron and may have ended Andersen as an independent firm, especially in its core business of accounting.

WORLDCOM

WorldCom is now known as MCI INC.is part of the Verizon communications group, today. The company emerged from bankruptcy in the year 2003.The allegations included, inflating overall assets through capitalization of operating costs. The scam amount was estimated to be around, a whooping $11 billion. WorldCom's intense bankruptcy filling comes second only to the Lehman Brothers, which happened in the year 2008, in the history of such fillings in the United States.

Satyam

Satyam computer services is company based in India (now taken over by Mahindra Group).In this scandal chairman overstated the cash and receivables by a total of over $100 million .Overall Satyam's assets were inflated by about $185 billion.

Conclusion:

- Corporate governance based on core values of the integrity and trust that has become important for the survival of companies and indeed of national economies in the increasingly global economic. It is an effective policy instrument in many areas of the operations of the national economy. Companies that are using good corporate governance are going very systematically with proper rules and regulations.
- Corporate governance is one of the pillars that focus on sustainability following environmental and social sustainability. Good corporate governance increases the likelihood that the enterprises will satisfy the legitimate claims of all stakeholders and fulfill its environmental and social responsibility. With the help of good corporate governance there is development in shareholder's value, reporting transparency, ethics policy and corporate citizenships.
- Good corporate governance contributes to the attack on the supply side of corruption as we know that corruption is not only bad but that it has highly damaging effects on national economies and to the self regulation of companies, especially newly privatized utilities and public companies.
- Effective corporate governance can be achieved by adopting a set of principles and best practices and these are depends upon fairness, honesty, integrity and the manner in which companies conduct their affairs.
- In order to grow and survive, companies must stay within ethical bounds. Companies must stay within ethical bounds. Companies should adopt policies that include environmental protection, whistle blowing, ethical tanning programs. These compliance mechanisms help build and develop corporate image and reputation, gain loyalty and trust from consumer and heighten commitment to employees.
- Ethical compliance mechanisms contribute to stability and growth since it instills confidence; management, leadership and administration are essentially ethical tasks. The focus of the virtues in corporate governance is to establish a series of practical responses, which depend on the consistent application of core values and principles as well as commitment to ethical business practice.
- The principal, structure and system of corporate governance can and should be applied in a wide range of organization not just publicly listed joint stock companies, but also throughout the banking sector, in state enterprises, in co-operatives, in the ever- growing and increasingly important NGO sector and in public services such as health and education boards. In this way the impact of improved corporate governance can be perceive in all sectors of a national economy.

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