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CORPORATE GOVERNANCE: A LITERATURE REVIEW

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Abstract
Corporate Governance is a broad term defines the methods, structure and the processes of a company in which the business and affairs of the company managed and directed. Corporate governance also enhances the long term shareholder value by the process of accountability of managers and by enhances the firm's performance. It also eliminate the conflict of ownership and control by separately defines the interest of shareholders and managers. This paper reviews the extensive literature of corporate governance practices to find out the effectiveness of corporate governance mechanism in the companies and institutions.

Keywords: Corporate Governance,Agency Theory, Ownership, Shareholders, Managers, Stakeholders.

Introduction

Corporate governance is the broad term describes the processes, customs, policies, laws and institutions that direct the organizations and corporations in the way they act, administer and control their operations. It works to achieve the goal of the organization and manages the relationship among the stakeholders including the board of directors and the shareholders. It also deals with the accountability of the individuals through a mechanism which reduces the principal-agent problem in the organization. Fine corporate governance is an essential standard for establishing the striking investment environment which is needed by competitive companies to gain strong position in efficient financial markets. Good corporate governance is fundamental to the economies with extensive business background and also facilitates the success for entrepreneurship. During the last two decades the research area in finance is primarily focus on the area of corporate governance. The separation of ownership from control is the core of the agency problems facing by the firms. This leads to many issues related to efficient control for the assets of corporations in the interest of all company's stakeholders. A great research has been done in the area of corporate governance by keeping the agency related problem. Core (1999) firms who have weaker governance to direct and manage company matter face greater agency problems. The agency problem allows manager to extract more private benefits and the firm ultimately performs worse. Firms therefore, needed for the improved corporate governance in order to survive for long term growth and survival. A good corporate governance can occur in the organization by putting the balance between the ownership and control and also among the interests of stakeholders of the firm. This approach might be helpful in developing the positive attitude among the manager and shareholders and reduces the agency problems in the firms. This paper presents the broad view of corporate governance from various perspectives and tries to link it with the agency problems where required. It gives an overview that how corporate governance handles the deviation between the mangers and shareholders' interests. The mechanism of effective corporate governance will help to determine the difference between ownership and control by giving the view of topic from different angles and tries to solve the agency problems in the organizations.

Literature Review

Agrawal and Fuloria (2004) analysed the perceived connection between competitive advantage and corporate governance from the perspective of both company and consumers.

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An attempt had been made to identify the aspects of corporate governance that consumers and companies were considering as important in Information Technology (IT) sector. The authors conducted a consumer survey with 200 consumers and questionnaire was circulated to 5 selected Indian IT companies. The findings revealed the variations between the consumer expectations and companies" perceptions regarding the aspects of corporate governance. The author also gave certain recommendations for IT sector to gain the competitive advantage through corporate governance and suggested that corporate governance might become a competitive necessity in future.

Berle And Means (1932) And The Even Earlier Smith (1776) in their study found that**,** corporate governance importance arises in modern corporations due to the separation of management and ownership control in the organizations. The interests of shareholders are conflicting with the interests of managers. The principal agent problem is reflected in the management and direction related problems due to the differential interests of firm’s stakeholders. There is not a single definition of corporate governance rather it might be viewed from different angles.

According to Blair (1995), corporate governance is the whole set of cultural, institutional and legal arrangements that identify what public-trading corporations can perform, who controls corporations, how the control is being exercised and how the activities, risks and returns are allocated.

Classens (2003) argues that corporate governance definitions, although widely varied, can be categorized into two sets. The first set of definitions deals with a behavioural pattern set that comprises the corporation’s actual behaviour, namely, its efficiency, financial structure, performance, growth and treatment of shareholders and other stakeholders. The second set of definitions deals with the normative framework. Corporate governance is based on rules under which companies operate including judicial systems, financial markets, legal systems and labour or factor markets. According to Blair (1995), corporate governance is the whole set of cultural, institutional and legal arrangements that identify what public-trading corporations can perform, who controls corporations, how the control is being exercised and how the activities, risks and returns are allocated.

Gillibrand (2004), the corporate governance structure deals with procedures and rules that are used for making decisions on corporate affairs. Corporate governance provides the structure through which the objectives of the firm can be framed and by which the performance of these objectives can be monitored and achieved. Corporate governance is the system of operating, structuring and controlling a firm with a view to reaching 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 defined as the set of rules and regulations that are framed to protect corporate values and shareholders’ interests.

Gupta (2006) traced out the differences in corporate governance practices of few locally based selected companies of automobile industry in Haryana. Three companies namely Hero Honda Ltd, Maruti Udhyog Ltd and Escorts Ltd were selected on the basis of their size and reputation in the market. The data with respect to governance practices had been obtained from the annual reports of the companies for the year 2004-05. The author observed that compliance of clause 49 of listing agreement was 90% in case of Hero Honda Ltd followed by Maruti (80%) and Escorts (70%). The author didn’t observe significant deviations of actual governance practices from clause 49 of the listing agreement.

Hess (1996), corporate governance (CG) is the process of administration and control of the firm's human resources and capital in the firm's owner's interest. Sternberg (1998) defines corporate governance as a way to ensure that corporate agents, assets and actions are directed towards reaching the objectives of the corporation which is expanded by its shareholders.

Kumar T N (2006) in his article highlighted certain anomalies present in the governance structure of Indian family managed corporations. The author had stated the real picture of governance issues especially in context of ownership dispute between two brothers of Reliance Industries Ltd. Moreover, the examples of Associated Cement Co's, and Tata Group Companies had also exposed the issues related to independent directors. It had been observed that the regulations of SEBI and Department of Company Affairs (DCA) on corporate governance, created confusions in the minds of companies regarding the guidelines to be followed. It had been suggested to render the powers of framing governance structure to DCA. The author had also discussed certain steps towards "Best" and "Next" practices of governance. It had been further suggested to family managed firms to adopt the best practices of corporate governance for the ultimate growth of the nation.

La Porta, Silanes and Shliefer (2000, 2002) view corporate governance as a set of mechanisms through which outside investors (shareholders) protect themselves from inside investors (managers). The Organization for Economic Cooperation and Development provides another perspective by stating that "corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedure for making decisions on corporate affairs. By doing this, it also provides the structures through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

O'Donovan (2003), corporate governance is an internal system that includes processes, policies and people that serve the requirements of shareholders as well as other stakeholders by controlling and directing activities by the firm's management with good business objectivity, savvy and integrity. Sound corporate governance is related to external marketplace legislation and to a commitment to adding a healthy board culture that protects processes and policies. In other words, corporate governance is defined as the moral, ethical and legal corporation values that safeguard stakeholders' interests.

OECD in 1999 defined corporate governance as "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."

Saidi (2004) points out that corporate governance is the system by which firms can be controlled and directed, and adds that the responsibility for corporate governance lies with the shareholders, board of directors (BOD) and the management. These groups also act as principal players in the corporate governance process. Other than the shareholders, management and board of directors, other stakeholders included in the process are suppliers, regulators, employees, creditors, the environment, customers and the community at large.

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Subramanian (2006) identified the differences in disclosure pattern on financial information and governance attributes namely board and management structure and process and ownership structure and investors relations of Indian companies. A sample of 90 companies from BSE 100 index, NSE Nifty and Nifty Junior had been taken, classified into public sector and private sector including the subsidiaries of multinational companies. The data with respect to disclosure score had been collected from the annual reports of the companies for the financial year 2003-04. The researcher had used the Standard & Poor's „Transparency and Disclosure Survey Questionnaire‟ for collection of data. This questionnaire was based on 98 items, divided into three categories such as financial transparency and information disclosure, board and management structure and process and ownership structure and investors relations. Disclosure score on board attributes, financial information and ownership structure had been taken as dependent variable. On the other hand, management control in the form of Government control, private promoter control and MNCs control had been taken as independent variables. Foreign institutional investors‟ holdings, sales and listing status were used as control variables in this study. Multivariate regression technique was used for analysis purpose. The author observed that there were no differences in disclosure pattern of public sector and private sector companies so far as financial transparency and information disclosure were concerned. It had been also observed that private companies disclosed more information under the category of board and management structure. The researcher had also pointed out that his study did not differentiate between mandatory and voluntary items of disclosure index.

Conclusion

Corporate governance is an internal system which includes policies, people and processes that serve the needs of shareholders and other stakeholders by controlling and directing the activities of management with good business savvy, objectivity and integrity. All current systems of corporate governance practice are centered on the four principles of transparency, fairness, responsibility and accountability. It is important in ensuring that responsibility and accountability must be incorporated into each and every part of the company or organization. In this review which is a collection of volume of research on corporate governance the significance of effective corporate governance is being evident.

Limitations of the Study

There are many limitations in the review conducted in this paper which can be associated with the lack of time. Each country is located in separate region and the cultural aspect of different nations can influence the practices of the business and its corporate governance. Due to the shortage of time the empirical aspect of study never being came into focus. More attention should be focus on the practical aspect of the corporate governance and its practices in real business environment need to be study closely.

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