excellence enablers
CORPORATE GOVERNANCE SPECIALISTS
[AN M. DAMODARAN INITIATIVE]

DEMYSTIFYING

Corporate Governance

excellence enablers CORPORATE GOVERNANCE SPECIALISTS
[AN M. DAMODARAN INITIATIVE]

Corporate Governance - Meaning

Corporate Governance is a value-based approach to running a company in a manner that is consistent with the interests of all stakeholders.

It is enabled by a set of laws, systems, processes and principles which ensure that a company is governed properly and in the best interest of all its stakeholders.

Key Terms in Corporate Governance

Stakeholder

A person/ company/ firm /or any other entity with an interest in a business and its activities**.**

Board of Directors (commonly referred to as Board)

A group of individuals elected by the shareholders of a company as their representatives to consider and decide on major issues of the Company.

There are broadly two types of Directors:

- Executive Director –Directors with executive responsibilities. This will include an Executive Chairman, an Executive Vice Chairman, a Managing Director and any other Wholetime director.
- Non- Executive Director – Directors without any executive responsibilities (they are usually part time).

Shareholder

A person, company, institution or other entity that owns at least one share of a company's stock.

Board Meeting

A meeting of the Board of Directors.

Board Committee

A group of members of the Board of Directors who, as a Committee, carry out specific functions assigned to them by the Board, and by law.

Annual General Meeting (AGM)

An annual meeting of the shareholders with the Board and the senior management of a company.

Annual Report

A detailed report on a company's activities throughout the preceding year and its outlook for the future.

excellence enablers | CORPORATE GOVERNANCE SPECIALISTS
[AN M. DAMODARAN INITIATIVE]

Evolution of Corporate Governance

Mahatma Gandhi said *"Businessmen are trustees"* and
"The ends do not justify the means"

- Read together, these statements offer the best explanation of Corporate Governance.

- Historically, companies did not govern themselves transparently and only sought to maximise the interests of the promoters, leading to frauds and scams.

- This resulted in Corporate Governance systems and laws being put in place.

- Initial laws on Corporate Governance focussed on the rights of shareholders only.

- Now the focus is on all stakeholders of business.

Why Corporate Governance?

Conflict of interest between different stakeholders

+

Asymmetry of information between different stakeholders

⬇

Need for Corporate Governance

- To ensure that a company runs in a **LAWFUL and ETHICAL** manner.
- To ensure a high degree of **TRANSPARENCY** in the conduct of business.
- To ensure **INDEPENDENCE** in operations and functioning of business.
- To **PREVENT FRAUD**.
- To ensure that the Board, and the management of the company are **ACCOUNTABLE** to all its stakeholders.
- To protect the interests of, and to ensure equitable and **FAIR TREATMENT** of, all the stakeholders (including shareholders) of a company.

Laws Governing Corporate Governance

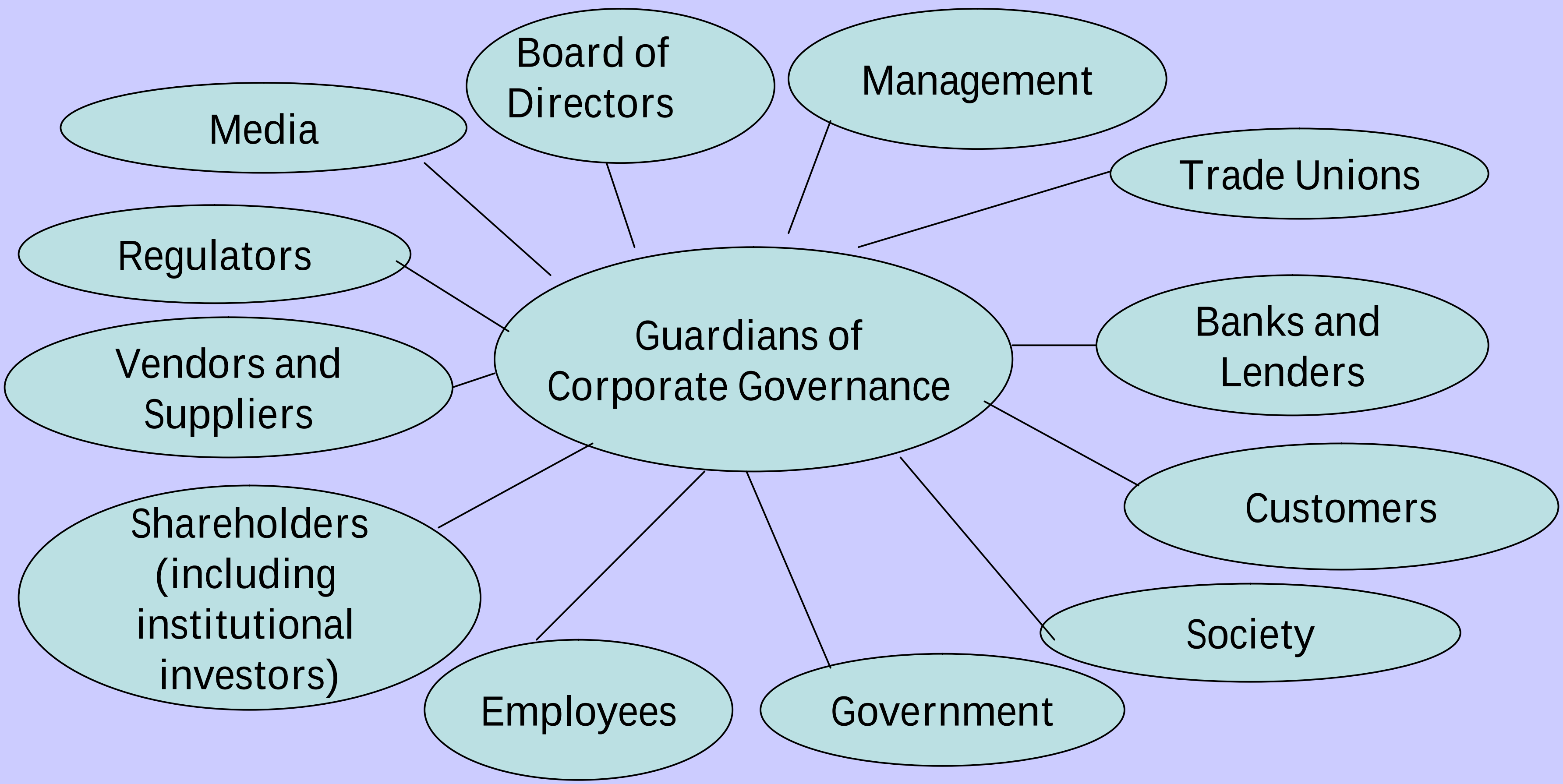
Companies Act, 2013

Administered by Ministry of Corporate Affairs (MCA)

Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015

Administered by Securities and Exchange Board of India (SEBI)

Guardians (and Stakeholders) of Corporate Governance



Board of Directors – What do they do?

What do Boards do?

- Boards provide SUPERINTENDENCE, DIRECTION and CONTROL.

What do Directors do?

- Executive Directors ensure that the company operates properly.
- Non-Executive Directors, as Board members ensure, SUPERINTENDENCE of, DIRECTION to, and CONTROL over, management.

Challenges in Corporate Governance

- Too many provisions which are too prescriptive.

- Inconsistencies within laws.

- Governance considered a cost, and not an investment, by a company.

- Companies only tick boxes and do not follow Corporate Governance in spirit.

Corporate Governance - Best Practices

- Proper Composition of Board.

- Receptive and responsive Board.

AND

- Transparency in communication with all stakeholders.

WITH A VIEW TO

- Protection of stakeholders' interest.

Our Chairperson's Take

CORPORATE GOVERNANCE is fundamental to creating wealth lawfully and distributing it equitably.

It is premised on doing unto others as you would have others to do unto you.

Meleveetil Damodaran

BASIC Rule of Governance
When in doubt, DISCLOSE

Excellence Enablers

Corporate Governance Specialists

Adding value, not ticking boxes

www.excellenceenablers.com