



## COMPANYS' PHILOSOPHY ON CODE OF GOVERNANCE

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**Abstract:** *At the outset this paper deals with how the companys' philosophy effects on corporate governance. The Corporate Governance becomes a buzzword all over the world due to debacles and scams occurred in various gigantic concerns like Enron, the Houston, and WorldCom etc. These scams are alarming the respective governments to propose a strong corporate governance policy for transparency, trust-worthiness, accountability and practising good business ethics. These practices are providing long-term benefits to the concerns and create an healthy atmosphere among the stakeholders. Corporate Governance can be traced back to early nineties when due to a series of corporate mismanagement and failures were reported in UK that led to the formation of Adrian Cadbury Committee who came out with first document, laid the foundation stone of the present day format of the corporate governance.*

*In India, the government has recognised the importance and role of corporate governance on Indian Corporate Sector especially post globalization. Besides there are many scams like Harshad Mehtha, Kethan Fareak, Global Trust Bank, UTI, and recently Satyam has been tilted the Indian Corporate Sector Image and philosophy.*

*The Confederation of Indian Industries (CII), the Associated Chamber of Commerce and Industry (ASSOCHAM) and the Securities and Exchange Board of India (SEBI) constituted committees to recommend initiatives in Corporate Governance. The recommendations of the Kumara Mangalam Birla committee, constituted by SEBI, led to the addition of Clause 49 in the Listing Agreement. The clause 49 in the listing agreement denotes various codes for effective governance practises in Indian corporate sector. Among them one of the basic code of conduct which also makes highly impacts on various corporate houses i.e. companys' philosophy on corporate governance. Basically the companys' philosophy has played its own role and practised by so many companies since its inception. Most of the Indian companies have emerged with their own philosophy, ethics, codes, and their own corporate social responsibility methods. Besides that the companies are attaining such a growth and development, image, reliability, charisma, long term vision, goals and objects are only due to strongly adhered to their own undisputed vision and philosophy.*

**Keywords:** *Company's philosophy, ethics, code of conduct, growth, image and social responsibility.*

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## **1. INTRODUCTION**

Corporate Governance can be traced back to early nineties when due to a series of corporate mismanagement and failures were reported in UK that led to the formation of Adrian Cadbury committee who came out with first document, laying the foundation of the present day format of the corporate governance. This report was primarily based on the frauds perpetrated by some of the unscrupulous directors usurping stakeholders' money for their personal benefits. So the terms of reference of this committee was mainly on the financial aspects of the corporations and focused on the roles of the institutional investors, auditors and remuneration of the top executives along with some measures on internal controls. The Cadbury Committee's terms of reference were mainly restricted to issues related to accountability.

The term "corporate governance", is susceptible both to broad and narrow definitions. In fact, many of the codes do not even attempt to articulate what is encompassed by the term. The important point is that corporate governance is a concept, rather than an individual instrument. It includes debate on the appropriate management and control structures of a company. Further, it includes the rules relating to the power relations between owners, the board of directors, management and, last but not least, the stakeholders such as employees, suppliers, customers and the public at large:".

Corporate governance is a concept, rather than an individual instrument. It includes debate on the appropriate management and control structures of a company. It includes the rules relating to the power relations between owners, the board of directors, management and the stakeholders such as employees, suppliers, customers as well as the public at large.

Corporations around the world are increasing recognizing that sustained growth of their organization requires co-operation of all stakeholders, which requires adherence to the best corporate governance practices. In this regard, the management needs to act as trustees of the shareholders at large and prevent asymmetry of benefits between various sections of shareholders, especially between the owner-managers and the rest of the shareholders.

## **2. MEANING OF CORPORATE GOVERNANCE**

"Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for



the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society" (Sir Adrian Cadbury in 'Global Corporate Governance Forum', World Bank, 2000)

Corporate governance is the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations.  
- International Chamber of Commerce .

### **2.1 Players in Corporate Governance**

It is possible to broadly identify sets of players in the corporate governance system. They can be identified as law, which is the legal system; regulators; the board of directors, employees, auditors, financial intermediary; markets and self-regulatory organizations. There is a dynamic balance among them that determines the prevailing corporate governance system, and the balance varies from country to country.

**a. Regulatory Bodies:** The companies act generally guides the legal structure, internal management, control and administration of corporate. The regulatory framework includes, Company Law Board, Security and Exchange Board of India, Registrar of Companies, Statutory Auditors, Stock Exchanges, Financial Institutions and Banks.

**b. Board of Directors:** The board is accountable in various ways to number of different stakeholders. The directors are expected to achieve a harmonious balance between competing interest, viz., shareholders, investors, consumers, employees, government and the society at large. The board should maintain a proper balance between short-term policies and long term priorities of the company.

**c. Market Forces:** What triggered interest in corporate governance issues was replacement of government controls by market forces? Since, by their very nature market forces are dynamic and vibrant, corporate governance cannot be a static set of rules.

**d. Shareholders:** A large number of individual shareholders are scattered across a wide area and hold investments of small size i.e., 100 to 1000 shares on an average basis. The objective of this class of shareholders is to simply make a better return on their investments than is available in the traditional modes of investments. Majority of them do not attach any



importance to analyse the information sent by the investee company or keep general track of the company.

**e. Auditors:** An auditor has a crucial responsibility of certifying the truth and fairness of the financial statements of a company under the Companies Act, 1956. Common criticism of Indian accounting norms is that they enable management hide more than what they reveal in the accounts. In the case of many companies, growth in size was not matched by corresponding growth in accounting controls.

### **3. CORPORATE GOVERNANCE IN INDIA – A HISTORICAL BACKGROUND**

The system of corporate governance in India operates in an administered environment. Administrative control is seen as arbitrary and enforcement as poor, as many recent scams have demonstrated.

Directors from the promoter's family have traditionally dominated the Indian boards. Professionals and other persons close to them constitute the majority on the board. Positions of chairman and managing director and executive directors are filled in from among the above persons. In most of the Indian companies there is no separation of roles of the Chairman and Managing Directors and one individual combines both the positions.

In government corporations the boards are a mere legal formality. The elaborate system of accountability of public enterprises operates through the means of parliamentary committees, independent vigilance officers and the comptroller and auditor general of India. Accountability has remained more in form than in substance. Major decisions such as appointments, investments, purchase contract, selling arrangements, collaborations, and industrial relation agreements have moved out of the corporation ambit into the bureaucracy and the political arena, bringing into focus the widespread corruption. None of the stakeholders-boards, the stock market, the banker, the financial institutions, the trade unions, and government-exercise major monitoring role over the inappropriate actions taken by the top management in the corporate sector.

The Indian corporate sector, largely represented by family-owned companies, has come to realize that managing company affairs demonstrably in the interest of shareholders is the only way to attract capital. There is evidence of a fundamental shift from management-dominated boards to shareholder sensitive ones and this strength is likely to be further strengthened.



Measures of Corporate Governance: There are number of measures laid down by clause 49 (which modified in 1992) adapted by SEBI based on recommendations by kumara mangalam birla committee which make its own impact on corporate governance. Among one of the important measurement factors like Companies' Philosophy on Code of Governance which also make its own impact on corporate governance. The companies' philosophy also know as mission and vision must be considered for measurement and evaluation of status and performance of the company. The companies' philosophy shall be considered as one of the corporate governance principles and practices and some of the Indian Companies are adhered to such philosophical values over the years for achieving the continuous growth and development in corporate sector. The companies' philosophy itself also exhibits the ethics and best governance practices of various companies. Some of the value based and growth oriented companies like Tata group, Reliance Ind., Infosys, Wipro, Bajaj Auto, HUL, Godrej, Ranbaxy, Acc, Dr.Reddy Labs, Cipla, Birla group and many other have been followed their own philosophy and culture and they should continue the same saga over the generations. These companies are also strictly followed business ethics and best governance practices which includes CSR(Companies social responsibilities) activities. These companies are highly admired by the public, shareholders, stakeholders, and so on. The minority shareholder's interests are also prioritised and protected and their ethical values of those companies are highly solicited. The ethical conduct of Tata group is so appreciable and their philosophy towards products, society, people, etc., are so appreciable rather than profits. Most of the Indian companies they didn't sacrifice their values, ethos, and codes in the name of it's profits and so on. The Tata and some other familiar companies so far not entered into some of the customer hazardous products like tobacco, liquor and other allied sectors. The ITC Group also primarily engaged in tobacco and cigarettes manufacturing and now they are also diversify their business pattern due to wide anti-smoking campaigns which causes for cancer and other severe relative diseases. The code of conduct, ethics and philosophy of a company is also highly influenced on their corporate affairs. For instance the Muragappa group had take over the Parry (I) Ltd., in such a takeover muragappa group has benefitted one of the profitable ventures like liquor conglomerate. The Muragappa group has severely contemplated the issue and finally decided to sold off eventhough it is profitable, but it is purely un-ethical and also against their philosophy of business. This



decision itself reveals that how the companies are adhered themselves towards the companies' philosophy on corporate governance. Usually the public have strongly opined that the companies have been exploited and polluted the natural scarce resources and makes non-hygienic conditions which leads to non-living conditions of the people and other species in the society. But this conception is not reliable in all the means due to their committed strong philosophy, governance practices and sense of responsibility towards the society. This was evidently observed and proved in so many companies which are strictly adhered to the principles and ethical practices towards social responsibility and performance of the company. The companies' philosophies have also played a vital and significant role on code of governance policies and practises. Consequently most of the companies are adhered to such philosophy, and continued their successful journey for tomorrow.

#### **4. CONCLUSION:**

I have finally concluded that the company's growth and development is not only based on its profits and other parameters. The parameters are different to each other in various companies. But one of the significant parameters is company's vision and mission (philosophy) which might be impacts on profit and its success. Over the years the gigantic concerns like Tata, Reliance, HUL, Wipro, Infosys etc., should follow such long term vision and mission for proving themselves in the society especially among the customers market. The customers are highly appreciated and accolade with such products or services not because of its mere quality, features, brand image and also by its vision and philosophy.

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