



## Corporate Governance

**For Prelims:** Corporate Governance, Central Bureau of Investigation, Banking Regulation Act

**For Mains:** Corporate Governance and related issues

### Why in News?

Chanda Kochhar (Ex-ICICI Bank CEO) **serves as a cautionary tale of the dangers of greed** in the corporate world.

- The [Central Bureau of Investigation \(CBI\)](#) has alleged that ICICI Bank had sanctioned credit of Rs 3,250 crore to the companies of the Videocon Group promoted by Dhoot in violation of the [Banking Regulation Act](#), **RBI guidelines**, and credit policy of the bank.

### What is Corporate Governance?

- **About:**
  - Corporate governance, **which refers to the system of rules, practices, and processes** by which a company is directed and controlled, plays a crucial role in ensuring that businesses are run ethically and in the best interests of their stakeholders.
  - One of the key responsibilities of corporate governance is to **prevent corporate greed and ensure that businesses are operated in a responsible and transparent manner.**
  - By enforcing strong ethical standards and holding individuals accountable for their actions, corporate governance can **help to curb greed and protect the interests of shareholders, customers, and the broader community.**
- **Principles of Corporate Governance**
  - **Fairness:**
    - The board of directors **must treat shareholders, employees, vendors, and communities fairly** and with equal consideration.
  - **Transparency:**
    - The board **should provide timely, accurate, and clear information** about such things as financial performance, conflicts of interest, and risks to shareholders and other stakeholders.
  - **Risk Management:**
    - The board and management **must determine risks of all kinds and how best to control them.** They must act on those recommendations to manage them. They must inform all relevant parties about the existence and status of risks.
  - **Responsibility:**
    - The board is **responsible for the oversight of corporate matters** and management activities.
    - It must be aware of and support the successful, ongoing performance of the company. Part of its responsibility is to recruit and hire a CEO. It must act in the best interests of a company and its investors.

- **Accountability:**
  - The board must **explain the purpose of a company's activities and the results of its conduct.** It and company leadership are accountable for the assessment of a company's capacity, potential, and performance. It must communicate issues of importance to shareholders.

## What are the Ethical Issues with Corporate Governance in India?

- **Conflict of Interest:**
  - The challenge of managers potentially enriching themselves at the cost of shareholders e.g., the recent case of former ICICI bank head Chanda Kochhar approved a loan to Videocon for a quid pro quo deal for her husband.
- **Weak Board:**
  - Lack of diversity of experience and background represents a major area of weakness for these boards. There have been questions about the board performing in the larger interests of the shareholders.
- **Separation of Ownership and Management:**
  - In case of family-run companies, the separation of ownership and management remains a key challenge in the majority of companies including some of India's top ones.
- **Independent Directors:**
  - Independent directors are partisan and are not able to check promoters unethical practices.

## What are the Related Initiatives?

- The Ministry of Corporate Affairs (MCA) and [Securities and Exchange Board of India \(SEBI\)](#) is responsible for corporate governance initiatives in India. The corporate sector of India faced major changes in the 1990s after liberalization.
  - SEBI monitors and regulates corporate governance of listed companies in India through Clause 49.
- [The Companies Act, 2013](#) provides a formal structure for corporate governance by enhancing disclosures, reporting and transparency through enhanced as well as new compliance norms.

## How Corporate Governance in India can be Improved?

- **Diverse Boards are better Boards:**
  - In this context, 'diverse' is all-encompassing, including gender, ethnicity, skills and experience.
- **Robust Risk Management Policies:**
  - Adoption of effective and robust risk management policies for better decision making as it develops a deeper insight into the risk-reward trade-offs that all Corporations face.
- **Effective Governance Infrastructure:**
  - Since the board is ultimately responsible for all the actions and decisions of an organisation, it will need to have in place specific policies to guide organisational behaviour.
  - To ensure that the **line of responsibility between board and management is clearly delineated**, it is particularly important for the board to develop policies in relation to delegations.
- **Evaluation of the Board's Performance:**
  - Boards should improve their **governance processes by addressing weaknesses revealed in board evaluations.**
- **Communication:**
  - Facilitating shareholder communication with the board is key. There is a need to provide a contact person with whom shareholders may discuss any issue.

## UPSC Civil Services Examination Previous Year Question (PYQ)

**Q1.** In the light of the Satyam Scandal (2009), discuss the changes brought in corporate governance to ensure transparency and accountability. **(2015)**

**Q2.** What do you understand by the terms 'governance', 'good governance' and 'ethical governance'? **(2016)**

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