Mains Practice Question

Q. What are the ingredients of corporate governance? What is their rationale. (150 words)

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Approach

- Start your answer by briefly explaining corporate governance.
- Discuss ingredients of corporate governance and their rationale.
- Conclude accordingly.

Introduction

- Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.

Body

- **Ingredients of Corporate Governance:**
    - **Accountability** – Accountability means a situation in which any person is responsible and needs to give a satisfactory reason for anything wrong in work. Corporate governance ensures accountability.
        - Accountability ensures that working management i.e., Managers, Employees is responsible to the Board of Directors (BOD).
        - Further, accountability ensures that the BOD is accountable to shareholders if anything bad happens.
    - **Transparency**: Corporate Governance makes ensure timely, accurate disclosure on all material matters of the company including the financial situation, performance, ownership.
    - **Board Meetings:** The boardroom is the professional place where the board of directors acts on its authority. They conduct formal meetings with a particular agenda and well-planning that leads to constructive execution of the meeting. A productive board meeting is the crux of decision making.
    - **The Composition of the Board and Staff:** The Board needs to be comprised of the right people with right attitude in the right positions, who work on the right mission. This leads to successful corporate governance.
    - **The Leadership of the Board and the Corporation:** Good governance is participatory. Behind the productivity of any high-performing corporation, one would find that it is led by a dedicated board of directors and the CEO.
        - The reputation and value of a corporation are gauged through its leaders. The leaders committed to a constructive partnership built on a shared understanding of the ultimate goal and vision, mutual respect, trust, reciprocal communications, and support for each other and their partnership.
- **Rationale of having Ingredients of Corporate Governance:**
    - **Brings Honesty & Transparency:** Corporate governance is important to promote the honest and transparent monitoring of each and every activity of the company. It helps the company to maintain the rules and standards of the company. Corporate governance also

assists the training and development of directors so that they can perform well in the decision-making process.

- **Access Foreign Capital:** Good corporate governance is important to bring efficiency & transparency to the company, which helps the global market players to gain credibility and trust.
- **Protection of Investor:** Bringing corporate governance in a company can protect investors' interests by improving the efficiency of corporate enterprises.
- **Fairness in Financial Reporting & Accountability:** Corporate governance ensures sound, transparent, and credible financial reporting. Corporate governance also makes accountability of employees & managers for their work to increase their effectiveness.
- **Improves Shareholder Communication:** Shareholder communication refers to the right to vote in the decision-making process. It is another way in which investors can communicate with the companies. Corporate governance is important to set up this right for shareholders. communication.

Conclusion

Good corporate governance ensures that an organisation's board of directors meet regularly, retain control over the business and have clearly defined responsibilities. It also ensures a robust risk management system. Corporate governance is one of the cornerstones of any good business.