Corporate Governance — Emerging Trends

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Abstract— Corporate governance. The framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community)

I. INTRODUCTION

Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. These include monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. Corporate governance practices can be seen as attempts to align the interests of stakeholders.[4][5]

Interest in the corporate governance practices of modern corporations, particularly in relation to accountability, increased following the high-profile collapses of a number of large corporations in 2001–2002, many of which involved accounting fraud; and then again after the recent financial crisis in 2008.

The need for corporate governance follows the need to mitigate cconflicts of interests between stakeholders in corporations.[3] These conflicts of interests appear as a consequence of diverging wants between both shareholders and upper management (principal-agent problems) and among shareholders (principal-principal problems),[7] although also other stakeholder relations are affected and coordinated through corporate governance.

II. EIGHT ELEMENTS OF GOOD GOVERNANCE

1. Rule of Law
2. Transparency
3. Responsiveness
4. Consensus Oriented
5. Equity and Inclusiveness
6. Effectiveness and Efficiency
7. Accountability.
8. Participation.

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III. KEY COMPONENTS OF CORPORATE GOVERNANCE

The key components of successful corporate governance are given below. Every organization large or small should concentrate and inculcate these components in every activity that they undertake to conduct the business, most important are points C, D and E.

A. *Clear Organizational Strategy.*

B. *Effective Risk Management*

C. *Discipline and Commitment.*

D. *Fairness to Employees and Customers.*

E. *Transparency and Information Sharing.*

F. *Corporate Social Responsibility.*

G. *Regular Self-Evaluation*

IV. GOOD GOVERNANCE EXPLAINED

Rule of Law

Good governance requires fair legal frameworks that are enforced impartially. It also requires full protection of human rights, particularly those of minorities. Impartial enforcement of laws requires an independent judiciary and an impartial and incorruptible police force.

Transparency

Transparency means that decisions taken and their enforcement are done in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information is provided and that it is provided in easily understandable forms and media.

Responsiveness

Good governance requires that institutions and processes try to serve all stakeholders within a reasonable timeframe

Consensus Oriented

There are several actors and as many view points in a given society. Good governance requires mediation of the different interests in society to reach a broad consensus in society on what is in the best interest of the whole community and how this can be achieved. It also requires a broad and long-term perspective on what is needed for sustainable human development and how to achieve the goals of such development. This can only result from an understanding of the historical, cultural and social contexts of a given society or community.

Equity and Inclusiveness

A society's well-being depends on ensuring that all its members feel that they have a stake in it and do not feel excluded from the mainstream of society. This requires all groups, but particularly the most vulnerable, have opportunities to improve or maintain their well-being.

Effectiveness and Efficiency

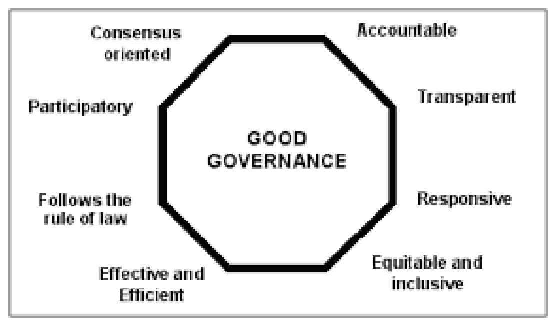
Good governance means that processes and institutions produce results that meet the needs of society while making the best use of resources at their disposal. The concept of efficiency in the context of good governance also covers the sustainable use of natural resources and the protection of the environment.

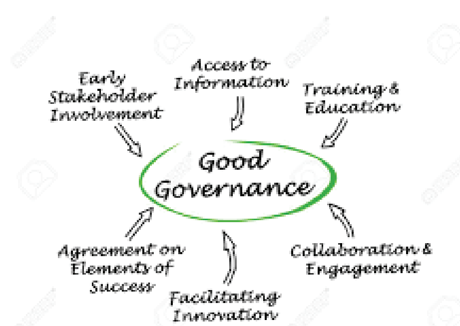
Accountability

Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. Who is accountable to who varies depending on whether decisions or actions taken are internal or external to an organization or institution. In general an organization or an institution is accountable to those who will be affected by its decisions or actions. Accountability cannot be enforced without transparency and the rule of law.

Participation

Participation by both men and women is a key cornerstone of good governance. Participation could be either direct or through legitimate intermediate institutions or representatives. It is important to point out that representative democracy does not necessarily mean that the concerns of the most vulnerable in society would be taken into consideration in decision making. Participation needs to be informed and organized. This means freedom of association and expression on the one hand and an organized civil society on the other hand.





V. HOW GOOD GOVERNANCE CAN MAKE LIFE BETTER

Many organizations have already realized that if they want to be successful, they must have a sense of responsibility not only for their business activities, but also for the whole society. That approach is entirely consistent with the basic idea of the concept of corporate social responsibility (CSR). In the economic area of the CSR concept, corporate governance plays an important role. Based on the OECD definition, corporate governance (CG) is a system by which business corporations are directed and controlled.

Responsibility in business again come to the fore and the current period is one of the factors that can significantly contribute to achieving stability and sustainable growth in the global economic environment. Enterprises should build their position on the principles of transparency and integrated approach to sustainable products and services, and the active cooperation of all stakeholders contribute to the overall well-being of society and the entire planet.

Responsible behavior is not a one-off or short-term matter; it has to be a long-term consistent business philosophy. It often involves radical changes in the thinking of owners, managers and employees of companies, who apart from their own corporate interests and needs and wishes of customers also factor in long-term interests of the society.

Thus Good Governance can lead to Good Quality of Life for all stakeholders

VI. EMERGING TRENDS GLOBAL

Institutional investors (both active managers and index fund giants) spent the last few years raising their expectations of public company boards—a trend we expect to see continue in 2019. The demand for board quality, effectiveness, and accountability to shareholders will continue to accelerate across all global markets. Toward the end of each year, Russell Reynolds Associates interviews a global mix of institutional and activist investors, pension fund managers, proxy advisors, and other corporate governance professionals regarding the trends and challenges that public company boards may face in the coming year. This year we interviewed over 40 experts to develop our insights and identify trends.

Board quality and composition

Since investors cannot see behind the boardroom veil, they have little choice but to rely on various governance criteria as a stand-in for board quality: whether the board is truly independent, whether its composition is deliberate and under regular review, and whether board competencies align with and support the company's forward-looking strategy. Directors face increased scrutiny around how equipped the board is with industry knowledge, capital allocation skills, and transformation experience. Institutional investors are pushing to further encourage robust, independent, and regular board evaluation processes that may result in board evolution. Boards will need to be vigilant as they consider individual tenure, director over boarding, and gender imbalance—all of which may provoke votes against the nominating committee or its chair. Gender diversity continues to be an area of focus across many countries and investors. Companies can expect increased pressure to disclose their prioritization of board competencies, board succession plans, and how they are building a diverse pipeline of director candidates. Norges Bank Investment Management, the world's largest sovereign wealth fund, has set a new standard for at least two independent directors with relevant industry experience on each of their 9,000 investee boards.

Deeper focus on oversight of corporate culture.

Human capital and intangible assets, including organizational culture and reputation, are important aspects of enterprise value, as they directly impact the ability to attract and retain top talent. Culture risk exists when there is misalignment between the values a company seeks to embody and the behaviors it demonstrates. Investors are keen to learn how boards are engaging with management on this issue and how they go about understanding corporate culture. A few compensation committees are including culture and broader human capital issues as part of their remit.

Investors placing limits on shareholder primacy and emphasizing long-termism.

The role of corporations in many countries is evolving to include meeting the needs of a broader set of stakeholders. Global investors are increasingly discussing social value; long-termism; and environment, social, and governance (ESG) changes that are shifting corporations from a pure shareholder primacy model. While BlackRock CEO Larry Fink's 2018 letter to investee companies on the importance of social purpose and a strategy for achieving long-term growth generated discussion in the US, much of the rest of the world viewed this as further confirmation of the focus on broader stakeholder, as well as shareholder, concerns. Institutional investors are more actively focusing on long-termism and partnering with groups to increase the emphasis on long-term, sustainable results.

ESG continues to be a critical issue globally

Asset managers and asset owners are integrating ESG into investment decisions, some under the framework of sustainability or integrated reporting. The priority for investors will be linking sustainability to long-term value creation and balancing ESG risks with opportunities. ESG oversight, improved disclosure, relative company performance against peers, and understanding how these issues are built into corporate strategy will become key focus areas. Climate change and sustainability are critical issues to many investors and are at the forefront of governance in many countries. Some investors regard technology disruption and cybersecurity as ESG issues, while others continue to categorize them as a major business risk. Either way, investors want to understand how boards are providing adequate oversight of technology disruption and cyber risk.

Activist investors continue to impact boards.

Activist investors are using various strategies to achieve their objectives. The question for boards is no longer if, but when and why an activist gets involved. The characterization of activists as hostile antagonists is waning, as some activists are becoming more constructive with management. Institutional investors are increasingly open to activists' perspectives and are deploying activist tactics to bring about desired change. Activists continue to pay close attention to individual director performance and oversight failures. We are seeing even more boards becoming "their own activist" or commissioning independent assessments to preemptively identify vulnerabilities. Firms such as Russell Reynolds are conducting more director-vulnerability analysis, looking at the strengths and weaknesses of board composition and proactively identifying where activists may attack director composition. In the following sections, we explore these trends and how they will impact the United States and Canada, the European Union and the United Kingdom, Brazil, India, and Japan.

VII. EMERGING TRENDS

Regulatory Reform

Motivated by a desire to attract global investments, curb corruption, and strengthen corporate governance, India is continuing to push for regulatory reform. In the spring of 2018, much to the surprise of many, the Securities and Exchange Board of India (SEBI) adopted many of the 81 provisions put forward by the Kotak Committee. The adoption of the recommendations has caused many companies to consider and aspire to meet this new standard. Kotak implementation has triggered a significant wave of governance implications centered around improving transparency and financial reporting. The adoption of these governance reforms is staggered, with most companies striving to reach compliance between April 2019 and April 2020.

Board composition, leadership, and independence.

Boards will face enhanced disclosure rules regarding the skills and experience of directors, which has triggered many companies to engage in board composition assessments. Directors will also be limited in the number of boards they can serve on simultaneously: eight in 2019; seven in 2020. The top 1,000 listed companies in India will need to ensure they have a minimum of six directors on their boards by April 2019, with the next 1,000 having an additional year to comply. Among other changes are new criteria for independence determinations and changes to director compensation. Additionally, the CEO or managing director role and the chair role must be separated and cannot be held by the same person for the top 500 listed companies by market capitalization. This will significantly change board leadership and control in many companies where the role was held by the same person, and it will boost overall independence. To further drive board and director independence, the definition of independence was strengthened, and board interlocks will receive greater scrutiny.

Board Diversity

India continues to make improvements toward gender diversity five years after the Companies Act of 2013 and ongoing pressure from investors and policymakers. Nevertheless, institutional investors and proxy advisors are calling for more progress, as a quarter of women appointments are held by family members of the business owners (and are thus not independent). Starting in 2019, boards of the top 500 listed companies will need to ensure they have at least one independent woman director; by 2020, the top 1,000 listed companies will need to comply.

Board Effectiveness

The reforms also include a requirement for the implementation of an oversight process for succession planning and updating the board evaluation and director review process.

Investor Expectations

Governance stakeholders are eager to see how much progress Indian companies will make during the next 18 months, but many are not overly optimistic given the magnitude of change required in such a short period of time. Investors are setting their expectations accordingly and understand that regional governance norms will not transform overnight. While it is unclear exactly how the government and regulators will respond to noncompliance, companies and their boards are feeling anxious about the potential repercussions and penalties.

VIII. CONCLUSION

Good governance is an ideal which is difficult to achieve in its totality. Very few countries and societies have come close to achieving good governance in its totality. However, to ensure sustainable human development, actions must be taken to work towards this ideal with the aim of making it a reality.

REFERENCES

[1] Corporate Governance Wikipedia
[2] Accounting Today