

**M.COM. – FIRST YEAR**

**(II SEMESTER)**

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**Paper: Corporate Laws and Governance**

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**UNIT -IV: Corporate Governance- I**

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**Topic: Principles of Corporate Governance**

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**Lecture: 16**

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**By: Dr. Reena**

# **Corporate Governance Principles**

The following eight corporate governance principles have been designed to be applicable to all organizations covered by the Code.

## **Principle 1: Governance structure**

All organizations should be headed by an effective board. Responsibilities and accountabilities within the organization should be clearly identified.

## **Principle 2: The Structure of the Board and Its Committees**

The board should comprise independent minded directors. It should include an appropriate combination of executive directors, independent directors and non-independent non-executive directors to prevent one individual or a small group of individuals from dominating the board's decision taking. The board should be of a size and level of diversity commensurate with the sophistication and scale of the organization. Appropriate board committees may be formed to assist the board in the effective performance of its duties.

## **Principle 3: Director's appointment procedures**

There should be a formal, rigorous and transparent process for the appointment, election, induction and re-election of directors. The search for board candidates should be conducted, and appointments made, on merit, against objective criteria (to include skills, knowledge, experience, and independence and with due regard for the benefits of diversity on the board, including gender). The board should ensure that a formal, rigorous and transparent procedure be in place for planning the succession of all key officeholders.

## **Principle 4: Directors' duties, remuneration and performance**

Directors should be aware of their legal duties. Directors should observe and foster high ethical standards and a strong ethical culture in their

organization. Each director must be able to allocate sufficient time to discharge his or her duties effectively. Conflicts of interest should be disclosed and managed. The board is responsible for the governance of the organization's information, information technology and information security. The board, committees and individual directors should be supplied with information in a timely manner and in an appropriate form and quality in order to perform to required standards. The board, committees and individual directors should have their performance evaluated and be held accountable to appropriate stakeholders. The board should be transparent, fair and consistent in determining the remuneration policy for directors and senior executives.

### **Principle 5: Risk Governance and Internal Control**

The board should be responsible for risk governance and should ensure that the organization develops and executes a comprehensive and robust system of risk management. The board should ensure the maintenance of a sound internal control system.

### **Principle 6: Reporting with Integrity**

The board should present a fair, balanced and understandable assessment of the organization's financial, environmental, and social and governance position, performance and outlook in its annual report and on

### **Principle 7: Audit**

Organizations should consider having an effective and independent internal audit function that has the respect, confidence and cooperation of both the board and the management. The board should establish formal and transparent arrangements to appoint and maintain an appropriate relationship with the organization's auditors.

### **Principle 8: Relations with Shareholders and other key Stakeholders**

The board should be responsible for ensuring that an appropriate dialogue takes place among the organization, its shareholders and other

key stakeholders. The board should respect the interests of its shareholders and other key stakeholders within the context of its fundamental purpose.