CORPORATE GOVERNANCE-II

M.COM II SEMESTER

UNIT-5 LECTURE-9 (19-04-2020)

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Introduction

- Corporate Governance issues have attracted considerable attention, debate, and research world wide in recent decades. Almost invariably, such efforts gain momentum in the wake of some major financial scam or corporate failure, as .these tend to highlight the need for tighter surveillance over corporate behaviour. Corporate governance has wide ramifications and extends beyond good corporate performance and financial propriety though these are no doubt essential. the major codes of corporate governance, i.e. Cadbury Report, the CII Code, the OECD Principles, the SEBI Code, and Sarbanes Oxley Act of 2002.

Cabdury Report

- The Cadbury Committee submitted its report and associated "Code of Best Practices" in December 1992. The Code of Best Practices had 19 recom The recommendations are:-

1. The effectiveness of a board is buttressed by its regular meeting, full control over the company and check over the executive management.

2. The Chairman should be strong and independent rather than Yes Man. The responsibilities should be divided clearly.

3. Non-executive Directors should play a significant role in the board's decisions. They should act as eyes and ears of the board. Therefore, the number of non-executive directors depends upon their caliber.

4. The Board should have a formal schedule of matters for decisions to ensure that the direction and control of the mendations.

5.If directors need advice for their duties then there should be a procedure of professional help, at the company's expense.

6. The company secretary

should ensure that the company's multifarious activities are performed smoothly and conform to the provisions of law.

should ensure the board that the board procedures are followed and applicable rules and regulations are complied with.

- should be appointed or dismissed by the board as a whole.

- should provide his professional advice to BODs.

7. Non-Executive Directors-

- should be independent.
- should be appointed through a formal procedure and their appointment should be specified.

- 8.Directors' service contracts should not exceed three years without shareholders approval.
- 9. There should be full and clear disclosure of total emoluments, pensions and stock options for executive directors and chairman. Separate figures shou~d be giVen for salary and performance related elements and the basis on which performance is measured should be explained.
- 10. Executive directors' pay should be subject to the recommendations of a Remuneration Committee made up wholly or mainly ofNon-Executive Directors.
- 11. The main duty of the Board is· to assess and present company's actual position.

- 12. The Board and Auditors should maintain a good professional relationship.
- 13. The Board should establish an Audit Committee of atleast 3 Non-executive Directors with written terms of reference, which deal clearly with its authority and duties.
- 14. The directors should explain their responsibilities for preparing the accounts next to a statement by the Auditors about their reporting responsibilities.
- 15. The effectiveness of the company's system of internal control should be report by the directors.
- 16. The Directors should report that the business is a gomg concern, with supporting assumptiot?-S or qualifications as necessary.