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CORPORATE GOVERNANCE IN ENTREPRENEURIAL BUSINESS

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ABSTRACT

Corporate governance is often identified with shareholder activism and within effort to make top executives more accountable and responsive to those who own stock in the companies they manage. Corporate governance encompasses issues ranging from how companies should behave in all level of forms both internal and external organization. Corporate governance is better to understood as the art of governing in a principal fashion so as to maximize the welfare of the company and of its relevant shareholder. Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing a new technique and commodities, discovering new source of raw materials and selecting the top managers of day to day operations of the enterprise.

Key words: Corporate governance, internal discipline, external discipline, good corporate, Ethical Behavior.

INTRODUCTION

Principles in developing corporate governance framework in entrepreneurship

- Openness
- Integrity
- Accountability

<u>Entrepreneurial Factors Influencing Corporate governance</u>

(a) The ownership Structure

The structure of the company determine to a considerable extent, how corporation is managed and controlled. The ownership structure can be either disappeared among individuals and institutional shareholders. According to a study on corporate ownership conducted in 1998, 36% of the firms in the world are widely held, 30% are the family controlled , 18% are the world are widely held, 30% are family controlled, 18% are state controlled and remaining 15% are the miscellaneous categories. Corporate sector is characterized by coexistence of the state owned, private and multinational enterprise. The share of these enterprises are held by the institutional as well as small investors, specifically

i. The term lending institutions
ii. Institutional investors, government owned institutions, mutual funds
iii. Corporate bodies
iv. Directors and their relatives
v. Foreign investors

(b) The structure of company bonds

The structure of the company bonds has considerable influence on the way the companies are managed and controlled. The board of directors is directors is responsible for establishing corporate objectives, developing board policies and selecting top level executives to carry out those objectives and policies. The board also reviews management performance to ensure that the company is run well and the shareholders are protected. Company boards are permitted to vary in size, compensation and structure so as to best serve the interests of the corporation and the shareholders. Board membership may include both inside directors and outside directors, again boards can be single-tiered or two tiered.

(c) The Financial structure

Along with the notion that the structure of ownership matters in corporate governance is the notion of the financial structure of the company proportion between dept and equity.

(d) The Institutional environment

The legal regulatory and political environment within a company operates determines in large measure the quality of corporate governance.

<u>Objectives of good corporate governance a newly started firm</u>

1. Strengthen management oversight functions and accountability
2. Balance skills, experience and independence on the board appropriate to the nature and extent of company operations
3. Establish a code to ensure integrity
4. Safeguard the integrity of company reporting

5. Risk management and internal control
6. Disclosure of all relevant and material matters
7. Recognition and preservation of needs of shareholders

Corporate governance deals with laws, procedures, and common practices that determine a firm's ability to take managerial decisions i.e. shareholders, banks, and term Lending financial although there are many attributes of corporate governance the following are particularly important:

1. The concentration of the corporate ownership and control, and the constitution and the role of corporate boards
2. Information and disclosure obligations to shareholders and investors
3. Corporate takeovers
4. What constitutes corporate dept, as well as the composition and concentration of creditors?
5. Corporate restricting
6. Financial distress, dept recognition, and bankruptcy procedures

Corporate governance varies considerably from country to country. For instance, US securities of investment legislation as well as stock exchange rules discourage concentration of ownership and control. Similarly banking laws in USA prevent banks from building-up concentrated corporate credit exposures and restrict them from holding equity positions in companies with which they have credit relationship. In contrast Japan and Germany have viewed banks and firms as perfectly complementary commercial entities. Consequiteky, corporate governance in these two countries is dominated by high bank credit and banking support-an environment where companies are expected to have on main bank which monitors the company agent of all investors.

<u>Governance Mechanisms to entrepreneur</u>

1. Ownership Concentration

(i) Large back shareholders have a strong incentive to monitor management closely.

(ii) Their large stakes make it worth their while to spend their large stakes make it worth their while to spend.

(iii) They may also obtain Board seats which enhances their ability to monitor effectively (although financial institutions are legally forbidden from directly holding board seats)

2. **Boards of Directors**
   (i) Insiders
   (ii) Related Outsiders
   (iii) Outsiders

   -Review and ratify important decisionset compensation of CEO and decide when to replace the CEO.

3. **Executive Compensation**
   (i) Salary, Bonuses, Long term incentive compensation.
   (ii) Incentive systems do not guarantee that managers make the "right" decisions, but they do increase the likelihood that managers will do the things for which they are rewarded.

4. **Multidivisional Organizational Structure**

Designed to control managerial opportunism corporate office and Board Monitor managers strategic decisions- Increased managerial interest in wealth Maximization M-form structure does not necessarily limit corporate-level managers' self-serving actions May lead to greater rather than less diversification Broadly diversified product lines makes it difficult for top-level managers to evaluate the strategic decisions of divisional managers.

- Protect rights of shareholders
- Recognize the rights of stakeholders
- Timely and accurate disclosure
- Responsibility of the board

Scope of corporate governance:

- Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interest of individuals, corporations and society.
- The foundation of any structure of corporate governance is disclosure. Openness is the basis of public confidence in the corporate system and funds will flow to centers of economic activity that inspire trust.

Scope of Code of Corporate Governance

The code provides a framework for efficient and transparent running of listed companies to enhance shareholder value. The regulators need to be vigilant to enforce the code in its true spirit.

The Code of Corporate Governance

- Non-Executive Director
- Qualification of a Director
- Tenure of Director
- Governance Policies of the Directors
- Information to Directors
- Orientation Courses
- CFO-Co.Sec

Responsibilities, powers and functions of board of directors Every listed company shall ensure

(a) Statement of Ethics and Business practices is prepared
(b) Board of directors to adopt vision statement, and overall corporate strategy; formulate significant policies (for the purpose of risk management, marketing, etc.)
(c) Establish internal control
(d) Documentation by resolutions passed in meetings on all serious issues. i.e. Investment and dis-investment of funds, loans, write-off of bad debts tec.
(e) Appointment of Chief Executive to be determined by the board.
(f) Investment policy of institution to be approved and reported in annual report.
(g) Significant issues to be placed for decision by the board of directors (i.e annual business plan, budgets, joint ventures etc.)
(h) Orientation courses for directors.

Enforcement issues of the Code

(A) INTERNAL DISCIPLINE

- Restricted to listed companies
- Regulation under section 34(4) of the Securities Exchange Ordinance, 1969-structurally flawed

- Penalty-section 9(4) of the S.E. Ord, 1969
- Soft law
- Voluntary in nature

(B) EXTERNAL DISCIPLINE

- Stakeholders (financial and community)
- Regulators (SECP Act, 1997/ CO Ord, 1984)
- Institutional shareholders
- Environmental law
- Labor and taxation laws
- Stock exchanges
- International credit rating firms
- Media
- NGOs

Areas to consider

- Shareholders rights
- Stakeholders rights (financial institutions, employees, Community)
- Corporate Social Responsibility (CSR)

(a) Union Carbide-Bhopal

(b) Exxon Oil Spills in Alaska

(c) Cement factories in Kahoon

(d) Leather Factories of Kasur

Corporate governance: not limited to companies

- Public sector corporations – new legislations provide better governance structure.
- Other corporate vehicles: cooperative societies
- Other vehicles of business: Partnerships – no mention – doing big business

Corporate Governance and Ethical Behavior

- It is important to serve the interests of multiple stakeholder groups Shareholders are one important stakeholder group, which are served by the Board of directors.

- Product market stakeholders (customers, suppliers and host communities) and Organizational stakeholders (managerial and non-managerial employees) are also important stakeholder groups.
- Although controversial, some believe that ethically responsible firms should introduce governance mechanisms which serve all stakeholder's interests.

Clause 49 in listing agreement

- The listing agreement was first introduced by Bombay Stock Exchange and later followed by other stock exchanges.
- SEBI, vide its circular dated February 21, 2000, specified principles of corporate governance and introduced a new clause 49 in the Listing agreement of the Stock Exchanges.
- The Listing agreement contains 51 clauses
- Listing means admission of the securities to dealing on a recognized stock exchange. The securities may be of any public limited company, Central or State Government, quasi-government and other financial institutions/corporations, municipalities, etc.
- Listing helps in free transferability, leads to transparency in disclosure of information and ensures official quotation is available.

CONCLUSION

Therefore corporate governance plays a vital role in the development of the organization especially for the newly started firms have to be considered while running the organization with the socioeconomic point of view and for their mutual benefit for their investment and innovation.

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