

ROLE OF THE STAKE HOLDER IN CORPORATE GOVERNANCE (WITH REFERENCE OF ACCOUNTING PROFESSION)

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Abstract

Corporate governance has become the latest buzzword in the corporate sector in India. Kumaramanglam Birla was recently quoted as saying that the principal objective of good corporate governance is to enhance value. Stakeholder corporate governance is a system that effectively enforces accountability relationships between the executive management and the board of directors and also between the board of directors and shareholders of a company. Corporate governance assumes importance for publicly traded companies because of the separation between the management and the shareholders. This separation gives rise to the classic agency problem. Therefore, corporate governance system primarily addresses the agency problem.

In this paper I would like to discuss on Role of Accounting profession in Corporate governance and also focus on how to protect interest of stakeholders and company through their responsibility.

Detailed paper

Introduction:-

Corporate governance is the new buzzword or rather a concept in corporate management that is yet to catch up in India but that has the potential to significantly improve corporate performance. In the case of corporate governance shareholders is considered as God. Corporate governance has assumed significance in India because it has been given importance by institutions like World Bank, ADB, OECD etc.

The focus on improving corporate governance and enhancing shareholder wealth is relatively new in India. Earlier, the managements were least concerned with how the shareholders were benefitted from the company's performance. The role of company was to pay dividends and hold AGM. There was minimum communication between company management and shareholders. Investors had to depend on news reports to get information about their companies. But all these have changed now.

Governance V/S Corporate Governance

What is Governance:- The term governance is common parlance is used to mean the way people are governed and the way the affairs of the state are administered and regulated. This concept, drawn from the public administration, has received increasingly greater attention in business world in the sense of direction and control of companies by their top management.

Corporate governance means the idea of ensuring proper management of companies through the institutions and mechanisms available to the shareholders. The Cadbury Committee Report (1991) defines corporate governance as – “a system, by which corporates are directed and controlled. Corporate governance is a system by which a corporate entity is directed and controlled in a given economic, political and social environment. It also entails the interplay between different stakeholders of a corporation, viz., board of directors, equity holders, debtholders, employees, customers and government. “it deals with how a company fulfils its obligations to investors and other stakeholders. It is about creating shareholder wealth while ensuring a fair play to all other stakeholders and society at large. Stakeholders mean people other than shareholders who have significant interest in the company. They can be creditors, employees of the company, government, society etc.

In a company, shareholders are the owners of the company and their responsibilities lie in selecting the Board of Directors. Board of Directors is a formal body responsible for the governance of corporate functions. They review the affairs of the company and direct them. Good corporate governance is the outcome of logical and rational decision taken at the board level. It requires board members of all five shareholders, independent public member and executives from banks, financial institutions, government organizations etc.

Corporate Governance in Indian Context

In India the concept of corporate governance is gaining importance because of two reasons.

- A) After liberalization, there has been institutionalization of financial markets, FIIs, FIs and mutual funds become dominant players in the stock markets. The market began to discriminate between wealth destroyers. Corporate governance is a critical byproduct of market discipline.
- B) Another factor is the increased role being played by the private sector. Companies are realizing that shareholders love to stay with those corporate that create values for their shareholders. This is only possible by adopting fair, honest and transparent corporate practices.

Corporate Governance and its Value:-

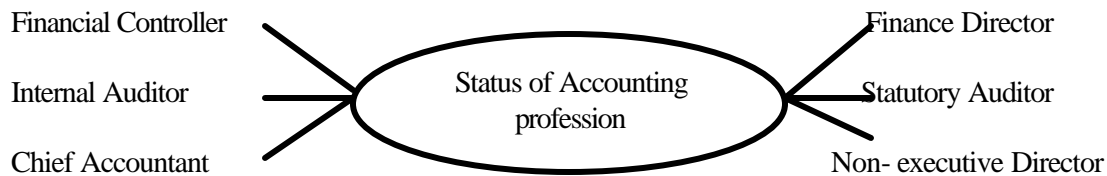
The company is committed to follow the best practices in the area of corporate governance. The company believes that proper corporate governance facilitates effective management and control of business. This, in turn, enables the company to deliver the optimum results to all its stakeholders. The objectives can be summarized as :

- To enhance shareholders value.
- To protect interests of shareholders and other stakeholders including customers, employees and society at large.
- To ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.
- To ensure accountability for performance and to achieve excellence at all levels.
- To provide corporate leadership of highest standard for others to emulate.

Role of the Accounting Profession in Corporate Governance

The accounting profession play a critical role in corporate governance through their attesting function and their perceived responsibility of ensuring transparency in accounting and reporting It is interesting that the accounting profession in the UK. and India, together with two other bodies, took the lead in setting up the Cadbury Committee whose terms of

reference specifically included, among others an examination of the role and responsibility of auditor and audits, This in testimony enough of the importance of accounting profession in any system of corporate governance



Some of the aspects of corporate governance that directly concern the Accounting profession are as under

Financial statements are among the most important means of reflecting the economic performance of business enterprise. Accounting records economic transactions, measures results, and assigns value to assets and liabilities at a practical point of time. Investors and others, therefore, extensively rely upon accounting information while taking economic decisions. Shareholders appoint auditors to get an independent external assurance that the information presented in financial statements reflects a true and fair representation of the facts. Shareholders rely on auditors' judgement because of their expert knowledge and independence. The profession loses its credibility and public confidence if it fails to demonstrate its competence and independence. This might happen if it ignores and changing societal needs, fails to develop improved audit practices and techniques to better discharge its responsibility, or allows its independence to become suspect due to any reason.

Accounting Standards

Those who prepare financial statements and those who audit them derive their strength from pronouncements of apex accounting bodies. Formulation of proper accounting and auditing standards is, therefore, critical for improving corporate governance, reflecting as they do the societal expectations as to the appropriate method of recording, accounting, and reporting transactions and performance of business operations. In order that such standards may truly reflect the expectations of society, the standards setting processes have to be structured in a manner that would allow free and wide – ranging expression of views by interested and concerned interests.

Transparency and Disclosures

Good governance is necessarily transparent governance and vice versa. With the growth of financial press and equity research the days of opaque accounting and reporting are coming to an end. Moreover, when the companies sourcing funds credible to deny similar information to Indian investors. For transparency in corporate governance the decision making done in the closets of board rooms, the sanctum sanctorum should be in an open and free environment and in a socially responsible manner. The issues, stakes and considerations should be examined in depth with seriousness they deserve and decisions should be taken independently and objectively. For the necessary information should be made available to the board and its committees in time.

Improvement in accounting and reporting is a necessary condition of improvement in corporate governance. Absolute transparency in accounting may be difficult to achieve. However, apart from meeting the statutory requirement, standards accounting practices with limited discretion should be adopted. In the process of accounting, apart from the considerations like relevance, materiality, prudence, understandability, substance over form it should be ensured that the output is reliable, complete, objective and a faithful presentation of the reality. In this respect the OECD Principles of Corporate Governance have emphasized

that timely and accurate information should be disclosed on all matters regarding the financial situation, performance, ownership and governance of the company (OECD P4).

Reference

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