

Corporate Governance: Enhancing Stakeholder Value

It has become a daily routine for the common man to hear Corporate Collapses / Fiascos / Frauds / Scandals regularly which impact/ affect one or all Stakeholders due to various reasons, mainly poor / bad Corporate Governance.

What is Corporate Governance?

Corporate Governance is a "system" of "structures and processes" to manage, direct and control companies. It specifies the distribution of rights and responsibilities among the company's stakeholders (including shareholders, directors, and managers) and articulates the rules and procedures for making decisions on corporate affairs. Thus, corporate governance provides the structure for defining, implementing, and monitoring a company's goals and objectives, and ensuring accountability to appropriate stakeholders. Corporate governance establishes 'a system' whereby directors are entrusted with duties and responsibilities in relation to the direction of the company's affairs. The term "governance" means management, i.e., managing a company or an organization, and corporate governance is managing or governing the corporate bodies through ethics, values, principles and morals. It includes the structures, processes, cultures and systems that engender the successful operation of organizations. (Source - A Handbook on Corporate. Governance - IOD Publishing 3rd Edition - Volume:1 Issue:3)

Who is a Stakeholder?

Stakeholder is a person / institution which has a stake in an entity. A stakeholder is either an individual, group or organization that's impacted / benefited by the outcome of an entity. Stakeholders have an interest in the success of that entity and can be within or outside. The international standard providing guidance on social responsibility, called ISO 26000, defines a stakeholder as an "individual or group that has an interest in any decision or activity of an organization."

A Stake in an entity can be investment, lending/ giving / receiving / utilising of supplies/ services.

Main Stakeholders (in alphabetical order) of an entity are:

- **Capital Providers (Shareholders, Bankers, Financial Institutions)**
- **Colleagues (Employees)**
- **Community**
- **Creditors**
- **Customers**

In pursuit of Earnings Vs Ethics, Profits Vs Planet and Profits Vs People, many corporates compromise on Ethics, Planet, People, Principles, Processes, and Systems.

To name few high impact Corporate Scandals which have shaken the confidence of stakeholders, (As a matter of fact for many English alphabets one or more companies are associated):

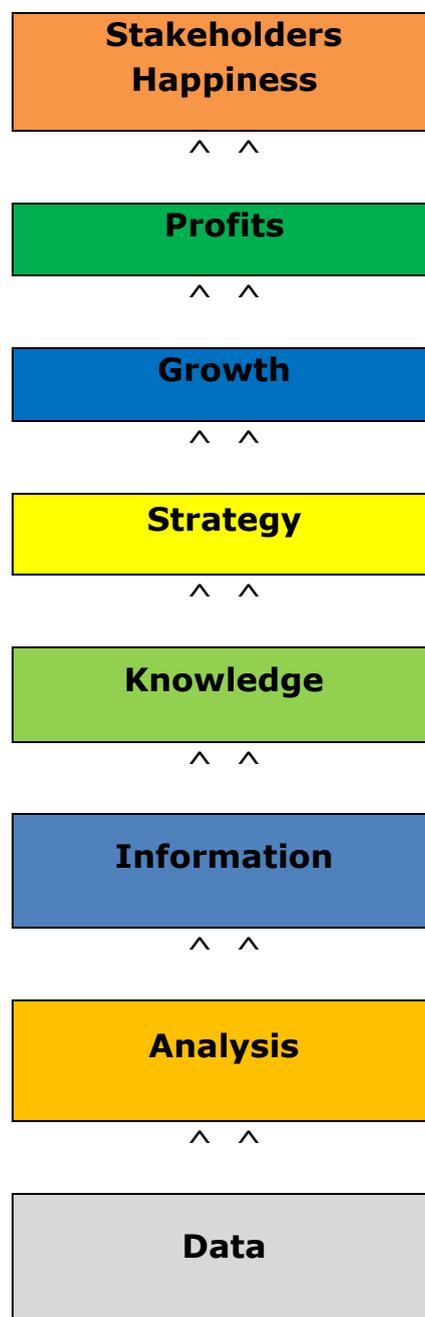
- American Insurance Group, Apple Inc
- BharatPe, Bernie Madoff, British Petroleum, Broker Network, Byju
- Dewan Housing Finance Limited
- Enron Inc, Equifax
- Freddie Mac, Facebook
- Global Trust Bank, GoMechanic
- Health South
- Infrastructure Leasing & Financial Services (IL&FS)
- Jet Airways
- Kingfisher Airlines
- Lehman Brothers
- Mojocare
- PayTM, PMC Bank, PNB Bank
- Sahara Group, Saravana Bhavan, Satyam Computers
- Tyco, Theranos, Treil
- Union Carbide, Uber
- Volkswagen
- Worldcom, Waste Management, Wirecard
- Yes Bank
- Zilingo

(The scandals of the above companies are widely published in the public domain)

Any scandal big or small affects one or all stakeholders - may be loss of money, loss of employment, loss of services / goods, loss of happiness, loss of health etc.,

To avoid or reduce the impact of the scandals a good and strong Corporate Governance is essential. In this **VUCA** (**V**olatility, **U**ncertainty, **C**omplexity, **A**mbiguity) world Corporate Governance is inevitable. Every entity whether it is Micro or Multinational must follow Corporate Governance.

I believe in Data > Analysis > Information > Knowledge > Strategy > Growth > Profits > Stakeholders Happiness.



Every entity should Design, Develop and Deploy a **Satisfaction Score – Matrix or Dashboard** of its own and work for improvement period on period

For Good Corporate Governance, Stakeholders wise Some pointers are mentioned below. These pointers can lead to good MIS (Management Information System) Dashboards, Processes and Systems.

Capital Providers:

Any entity can successfully progress if it has unhindered cash-flow. Till the revenues are stable and sufficient for the operational and capital needs, it must depend for the funds from Shareholders, Bankers, Financial Institutions, Funding Firms and others.

The Capital Providers expect Dividends, Stock Buyback, Interest, Capital Appreciation and the entity should strive for maximising Return on Investment.

An entity can benefit if there is an improvement in Period Over Period comparison and Inter-firm comparison of the following ratios along with good Corporate Governance Systems and Processes:

- Equity Ratio
- Debt Ratio
- Debt-To- Equity Ratio
- Times Interest Earned
- Return on Assets
- Return on Equity
- Book Value per Share
- Earnings per Share

Capital Providers are happy when they get:

- Optimum ROI
- Dividend / Interest / Principal on time
- Appreciation of Investment
- Trust in Continuity of Investment
- Adherence to Statutory compliances

Colleagues:

A colleague is a person with whom one works in an entity.

Regular Review of Value-Added Statement helps in monitoring the contribution of the colleagues.

Value Added Statement may be defined as the statement, which shows the income of the company as an entity and how that is divided between the people who have contributed to its creation.

An example will help us to improve the Colleagues happiness: Bob Moore, the founder of Bob's Red Mill, (<https://www.bobsredmill.com/>) died at the age of 94 on February 10, 2024. His company is best known for its whole grain products and benevolence towards employees. Mr Moore had established a unique ownership structure for his natural food firm. Rather than selling out to a food conglomerate, he gave his 700 employees full ownership of the company, as per a report in Fortune.

An entity can benefit if there is an improvement in Period Over Period comparison and Inter-firm comparison of the following ratios along with good Corporate Governance Systems and Processes:

- Employee Turnover Ratio
- Revenue / Employee

Colleagues are happy when they get:

- Career Progression
- Good Socio-Economic Benefits
- No Discrimination
- Pride to work
- Recognition
- Rewards
- Succession Planning

Community:

Community is, we the people living together Locally – Globally in a good state.

There are many entities which have shaken the confidence and existence of Communities while there are few entities which work for the well-being of the communities and give back to the community.

Community is happy when it gets:

- Contribution to the economy
- On Time, Every Time Remittances to the Local, State, National exchequer
- Value Addition through Corporate Social Responsibility
- Entities maintaining good ESG Score

Creditors:

Creditors are the individuals, entities which provide materials, machines, money, services, etc., an entity. The success and growth of an entity depends on the timely receipt of materials, machines, money, services, etc., from its creditors. Hassle free supplies / services are possible with a Robust Supply Chain Ecosystem.

An entity can benefit if there is an improvement in Period Over Period comparison and Inter-firm comparison of the following ratios along with good Corporate Governance Systems and Processes:

- Payables Turnover Ratio
- Number of Days of Payables Ratio

Creditors are happy when they get:

- Assurance of Continuity of Supplies / Services
- Consistent and Constant adherence to Payment Terms
- Payment on time every time
- Registered as a Preferred Vendor
- Right Procurement Price

Customers:

Customers are the individuals or entities who take services or goods from an entity. Customers are the Revenue Providers. The success and growth of an entity depends on the timely delivery of materials, services, etc., Hassle free supplies / services are possible with a Robust Customer Relationship Ecosystem.

An entity can benefit if there is an improvement in Period Over Period comparison and Inter-firm comparison of the following ratios along with good Corporate Governance Systems and Processes:

- Receivable Turnover Ratio
- Days of Sales Outstanding Ratio

Customers are happy when they get:

- Assured Quality
- Consistent and Constant Continuity of Supplies / Services
- Right Sales Price
- Good Customer Care

Any entity which is not booked in the any of the following can be considered as a good entity with Happy Stakeholders as it may not involve into Corporate Frauds / Scandals / Collapses. And it is possible with a good Corporate Governance and uncompromising Ethics, Principles, Processes, and Systems

- Arbitration, Litigation, Mediation Processes
- Child Labour Employment
- Consumer Forums
- Gender Bias
- Human Rights Violation
- Insolvency and Bankruptcy Board of India (IBBI)
- MSME District Facilitation Centres
- National Company Law Tribunal (NCLT)
- Pollution Issues
- Securities and Exchange Board of India (SEBI)
- Statutory and Regulatory Authorities
- Various Courts

Corporates can make their stakeholders satisfied or happier if they adhere to a set of Ethics, Principles, Processes, Systems.

Like all the parts of the body help/participate in maintaining a happy and healthy body similarly all the stakeholders help/participate for a wealthy entity.

When all the stakeholders are satisfied then that entity's brand will enhance manifold and will lead to a good Corporate Governance.