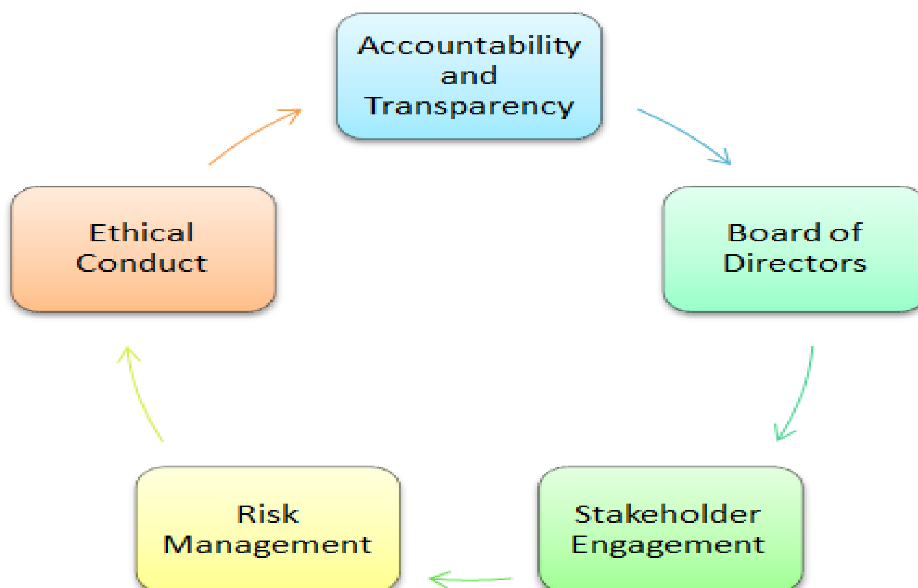
CORPORTAE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

UNIT 1

What is Corporate Governance?

Corporate governance refers to the system of rules, practices and processes by which a company is directed and controlled. It involves balancing the interests of a company's many stakeholders, including shareholders, management, customers, suppliers, financiers, government and the community. Good corporate governance ensures that companies act in a responsible and transparent manner, fostering trust and confidence among stakeholders.

Key Components of Corporate Governance



1. Board of Directors: The board plays a crucial role in corporate governance, providing oversight and direction to management. It ensures that the company adheres to laws and regulations, ethical standards and best practices.
2. Accountability and Transparency: Companies must be accountable to their stakeholders and transparent in their operations. This includes accurate and timely financial reporting, clear communication and openness in decision-making processes.
3. Ethical Conduct: Corporate governance promotes ethical behaviour among employees and management. This includes adherence to company policies, ethical decision-making and integrity in business practices.
4. Risk Management: Effective corporate governance involves identifying, assessing and managing risks. This helps in safeguarding the company's assets and ensuring long-term sustainability.
5. Stakeholder Engagement: Engaging with stakeholders, understanding their needs and addressing their concerns are vital aspects of corporate governance. This ensures that the company's actions align with stakeholder expectations.

What is Corporate Social Responsibility?

Corporate social responsibility is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders and the public. By practising CSR, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social and environmental.

Key Components of Corporate Social Responsibility

1. Environmental Sustainability: CSR initiatives often focus on reducing the environmental impact of a company's operations. This can include reducing carbon footprints, managing waste, conserving energy and using sustainable resources.
2. Social Equity: Companies engage in activities that promote social welfare, such as supporting education, healthcare and community development. This can involve charitable donations, volunteer programs and partnerships with non-profit organizations.
3. Ethical Labor Practices: CSR emphasizes fair labour practices, including ensuring safe working conditions, fair wages and respecting workers' rights. This also extends to the company's supply chain.
4. Community Engagement: Building strong relationships with the communities in which they operate is a key aspect of CSR. This can involve local employment, community development projects and open communication channels with community members.
5. Corporate Philanthropy: Many companies engage in philanthropy by donating funds, resources or time to various social causes. This is a direct way to give back to society and support those in need.

Differences Between Corporate Governance and Corporate Social Responsibility

While both corporate governance and CSR are crucial for a company's success and sustainability, they differ in their focus, objectives and implementation.

Focus

- Corporate Governance: Primarily focuses on internal mechanisms to govern a company's operations, decision-making processes and accountability structures.
- Corporate Social Responsibility: Concentrates on the external impact of a company's operations, focusing on social, environmental and ethical responsibilities.

Objectives

- Corporate Governance: Aims to ensure that a company is managed effectively, transparently and ethically, maximising value for shareholders and other stakeholders.
- Corporate Social Responsibility: Seeks to make a positive impact on society and the environment, going beyond profit maximisation to consider broader social and environmental goals.

Implementation

- Corporate Governance: Implemented through internal policies, procedures and frameworks such as codes of conduct, board committees, risk management systems and compliance programs.
- Corporate Social Responsibility: Executed through various initiatives and programs such as environmental sustainability projects, community development activities, ethical sourcing and corporate philanthropy.

Stakeholder Engagement

- Corporate Governance: Focuses on engaging with shareholders and internal stakeholders to ensure accountability and transparency in the company's operations.
- Corporate Social Responsibility: Engages with a broader range of stakeholders, including communities, customers, suppliers and regulators, to address social and environmental issues.

Impact

- Corporate Governance: Directly impacts the internal functioning of a company, influencing its management, operational efficiency and compliance with laws and regulations.
- Corporate Social Responsibility: Affects the external environment and society, contributing to social welfare, environmental sustainability and ethical business practices.

Below is a table highlighting the key differences between Corporate Governance and Corporate Social Responsibility:

Principles of Corporate Governance

The principles of Corporate Governance are:

Accountability

Accountability means to be answerable and be obligated to take responsibility for one's actions. By doing so, two things can be ensured-

1. That the management is accountable to the Board of Directors.
2. That the Board of Directors is accountable to the shareholders of the company.

This principle gives confidence to shareholders in the business of the company that in case of any unfavourable situation, the persons responsible will be held in charge.

Fairness

Fairness gives shareholders an opportunity to voice their grievances and address any issues relating to the violation of shareholder's rights. This principle deals with the protection of shareholders' rights, treating all shareholders equally without any personal favouritism, and granting redressal for any violations of rights.

Transparency

Providing clear information about a company's policies and practices and the decisions that affect the rights of the shareholders represents transparency. This helps to build

trust and a sense of togetherness between the top management and the stakeholders. It ensures accurate and full disclosure timely on material matters like financial condition, performance, ownership.

Independence

Independence means the ability to make decisions freely without being unduly influenced. Decisions should be made freely without having any personal interest in the company. It ensures the reduction in conflict of interest. Corporate governance suggests the appointment of independent directors and advisors so that decisions are taken responsibly without influence.

Social Responsibility

Apart from the 4 main principles, there is an additional principle of corporate governance. Company social responsibility obligates the company to be aware of social issues and take action to address them. In this way, the company creates a positive image in the industry. The first step towards Corporate Social Responsibility is to practice good Corporate Governance.

Corporate Governance in India

Candidates should have thorough knowledge about Corporate Governance in India as it is covered under the UPSC Syllabus.

Candidates shall go through the topic and make their UPSC notes accordingly.

1. The Ministry of Corporate Affairs (MCA) and Securities and Exchange Board of India (SEBI) is responsible for corporate governance initiatives in India. The corporate sector of India faced major changes in the 1990s after liberalization.
2. In the 1900s, SEBI regulated corporate governance in India through various laws like the Security Contracts (Regulation) Act, 1956; Securities and Exchange Board of India Act, 1992; and the Depositories Act of 1996.
3. In February 2000, SEBI established the first formal regulatory framework for corporate governance in India owing to the recommendations of the Kumar Mangalam Birla Committee. It was undertaken to improve the standards of corporate governance in India. This came to be known as clause 49 of the Listing Agreement.
4. A major corporate governance initiative was undertaken in 2002 when the Naresh Chandra Committee on Corporate Audit and Governance furthered their recommendations addressing multiple governance issues.
5. MCA and the Government of India have set up multiple organisations and charters like the Confederation of Indian Industry (CII), National Foundation for

Corporate Governance (NFCG), and Institute of Chartered Accountants of India (ICAI).

Significance of Corporate Governance

Good corporate governance has assumed greater importance and urgency in India give the following reasons:

- **Changing Ownership Structure:** The corporate landscape has witnessed a notable shift in ownership structures, particularly in large private-sector corporations. The traditional model of concentrated ownership by a few individuals or families has given way to a more diverse ownership base. This evolution has been driven by factors, such as the threat of hostile takeovers and the emergence of institutional investors. As a result, corporate governance has gained heightened significance in ensuring accountability, transparency, and protection of the rights of all shareholders. It plays a crucial role in preventing undue influence, promoting fair decision-making, and safeguarding the interests of minority shareholders.
- **Social Responsibility:** Corporate governance serves as a driving force in fostering social responsibility among companies. Integrating ethical practices and considering the interests of various stakeholders, including customers, lenders, suppliers, and the local community, helps organizations contribute positively to society. Effective corporate governance ensures that directors act in the best interests of the company while considering the broader impact of their decisions. It provides a framework for responsible management and distribution of resources, ultimately enhancing value for all stakeholders and facilitating sustainable development.
- **Scams:** Instances of corporate fraud have eroded public confidence and underscored the need for robust corporate governance practices. Scandals, such as the Harshad Mehta case and CRB Capital fraud have inflicted substantial losses on small investors and highlighted the importance of transparency, accountability, and risk management. By implementing effective governance mechanisms, including independent audits, internal controls, and board oversight, companies can detect and prevent fraudulent activities. Strong corporate governance acts as a safeguard, protecting the interests of shareholders, upholding ethical standards, and maintaining the trust of the investing public.
- **Corporate Oligarchy:** In India, the promotion of shareholder activism and democracy remains an ongoing challenge. Corporate governance practices need to address the issue of concentrated power and promote transparency, accountability, and shareholder participation. Encouraging diverse representation on boards, allowing proxies to speak at meetings, and fostering shareholder associations are vital steps toward countering corporate oligarchy. Effective corporate governance ensures a level playing field, promotes equitable decision-making, and helps establish a culture of inclusivity and fairness within organizations.

- **Globalization:** The integration of Indian companies into global markets and the pursuit of international listings have underscored the importance of robust corporate governance practices. Strong governance frameworks are vital for establishing trust among global investors, complying with international regulations, and fostering transparency and accountability. By adhering to global governance standards, companies can enhance their competitiveness, attract capital, and ensure the confidence of international stakeholders. Effective corporate governance facilitates strategic decision-making, risk management, and integrity in financial reporting, enabling companies to thrive in a globalized business environment.

Functions of corporate governance

- **Transparency**
- Being open and honest about a company's policies, practices, and decisions. This helps build trust between management and stakeholders.
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- **Accountability**
- Ensuring that an organization is evaluated on its performance and behavior.
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- **Disclosure**
- Making relevant information available to stakeholders in a timely and balanced way. This includes financial reporting, ownership, and performance.
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- **Risk prevention**
- Using procedures to prevent problems and maintain an active compliance area.

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- **Ethics**
- Helping the company demonstrate its commitment to ethics.
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Objectives of Corporate Governance

Corporate governance aims to attain the following objectives;

1. Monitoring the performance

Corporate governance sets guidelines for monitoring the performance of the organisation. It addresses the need of the organisations to act in the best interest of the firm's core stakeholders. It guarantees that the shareholders receive a fair return on their investment through good performance

2.Conformance

Corporate governance insists for compliance with legal requirements,industrial standards and accountability to the stakeholders. It is to meet the requirements of the law, regulations, published standards and community

3. Inculcate moral values

All corporate activities go through a variety of moral issues. The functioning of an organisation on the basis of moral values depends on the effectiveness of its moral reasoning. Absence of moral reasoning leads to unethical management and corporate practices. Companies should review their activities to check its agreement with accepted moral principles. Corporate governance attempts to implant moral values in a corporate setting .

4. Ensure fairness in operations
Corporate governance facilitates companies to establish right goals,selecting right ways, making right decisions and doing right actions so as to ensure honesty and fairness in their operations.

5. Equitable treatment of shareholders Corporate governance aims at ensuring a fair and equitable treatment of shareholders without any discrimination. In some organisations, a particular group of shareholders enjoy more power and benefits due to their strong position and may be better able to guard

their interests. Such groups include high net-worth individuals and
institutions that have a substantial proportion of the share in the company.

6-Equal
treatment of all shareholders and the protection of shareholder rights are the
two important areas of corporate governance.

7-Good relationships
The OECD Principles of Corporate Governance states that corporate
governance involves a set of relationships between a company's
management, its board, its shareholders and other stakeholders.

The Interrelationship Between Corporate Governance and Corporate Social Responsibility

Although corporate governance and corporate social responsibility have distinct focuses and objectives, they are interrelated and can complement each other. Good corporate governance can provide a strong foundation for effective corporate social responsibility practices, while robust corporate social responsibility initiatives can

enhance a company's reputation and stakeholder trust, which are essential for good governance.

How Corporate Governance Supports CSR

1. Ethical Leadership: Effective corporate governance promotes ethical leadership and decision-making, which can drive the adoption of responsible business practices and corporate social responsibility initiatives.
2. Accountability Mechanisms: Corporate governance frameworks ensure accountability and transparency, which can enhance the credibility and effectiveness of corporate social responsibility activities.
3. Stakeholder Engagement: By engaging with stakeholders, companies can better understand social and environmental issues, aligning their corporate social responsibility efforts with stakeholder expectations.

How CSR Enhances Corporate Governance

1. Reputation and Trust: CSR initiatives can enhance a company's reputation and build trust among stakeholders, which is crucial for effective governance.
2. Long-Term Sustainability: By addressing social and environmental issues, corporate social responsibility contributes to the long-term sustainability of the company, which aligns with the goals of corporate governance.
3. Risk Mitigation: CSR activities can help mitigate risks related to social and environmental factors, supporting the company's risk management efforts.

EVOLUTION OF CORPORATE GOVERNANCE

If we go back and see the Indian history way back in the third century B.C. we will find that Patliputra, the capital of the Mauryan Empire was said to be the best example of a city which followed the best practices of governance. Chanakya in his book Arthshastra, mentioned the virtues of an ideal kind which can be related to the chief of any organization. These virtues are:

1- Well-being of the subjects;;
2 -Welfare of the subjects.

If these two are followed, then the king automatically will be happy and something which is desirable and beneficial to the subjects is desirable and beneficial to the king.

If we substitute the state with the organization and the king with the chief of the organization or the board of a company, and the subjects with the shareholders, the

principles of corporate governance which is the belief that public good should be ahead of private good; and that the corporation's resources should not be used for personal benefit fits well.

The duties of the king when applied for a business organization implies as follows:
-Protecting the shareholders wealth,
-Proper utilization of assets;
-Maintenance of wealth;
-Accountability and transparency.

The advent of company law happened in the middle of 19th century. This was basically done to protect the interests of the shareholders in the joint stock companies.

The concept of Board of Directors (BOD) as trustees of the shareholders emanated from the need for appropriate governance structure. The BOD would be responsible for overseeing the management of the organization in order to protect the interests of the shareholders. As the time passed the ownership of shareholdings gradually shifted from individuals to institutional investors and also with privatization throughout the globe, control of assets shifted from State to market economy. This led to the views of various experts who felt good governance is a useful indicator of good performance in the market systems.
In the developed market economies, the concern for Board governance framework became important due to rise in corporate sector financial and related irregularities at different points of time especially during the twentieth century.
This showed the inefficiency in the governance structure. Further, with the gradual opening up of the global economy, trade, investment and international financial market liberalization, the framework of effective corporate governance gained recognition. This was considered as an important instrument for sustained development of the world economy. Worldwide a series of expert committee reports led to the evolution of different codes of corporate governance to reflect the challenges of a competitive and globalised system. There is no fixed way as to how corporate governance can be incorporated in an organization's strategy.
There are different views and different experts have given different definitions of corporate governance. The dictionary meaning of governance includes both 'the action or manner of governing' and 'a mode of living, behaviour, and demeanor'. Corporate governance is essentially concerned with the process by which organizations are governed and managed.

It is a set of standards, which aims to improve the organization's image, efficiency, effectiveness and social responsibility. The concept of corporate governance primarily relies on complete transparency, integrity and accountability of the management, with an increasingly higher focus on investor protection and public interest.

A key element of good governance is transparency projected through a code of good governance, which incorporate a system of checks and balances between key players – boards, management,
auditors and shareholders.

The corporate governance framework in many countries of the world is largely inward-focused. It mainly highlights the composition of management structure at various levels.

The composition at different levels is different assuming that the right structure will automatically ensure quality to delivery.
All corporate governance systems depend on 5 key pillars which will be discussed later in this unit.
These are:
1. Accountability
2. . Fairness
3. . Transparency
4. . Integrity
5. . Social responsibility

The challenges of upholding these pillars depend upon the ownership structure of the corporate. The corporate ownership structures are of two types: 1) "Insider" (concentrated) and 2)"Outsider" (dispersed). In the concentrated ownership structure, ownership control is concentrated in the hands of a small number of individuals, families, holding companies, banks or other non-financial companies. In this structure insiders exercise control over organization in different ways.
The most common feature in this structure is that insiders own the majority of the shares of the organization with voting rights. Most nations, especially those governed by civil law, have concentrated ownership structure. In dispersed ownership structures, there are number of owners, each of whom holds a small number of shares of the organization. Small shareholders have little incentive to closely monitor organizations' activities and tend not be involved in management decisions or policies.
Common law countries such as United Kingdom and United States tend to have dispersed ownership structure. Each ownership structure has its own corporate governance challenges.

Evolution globally

In the early 1990's in the United Kingdom, the United States and Canada began the modern trend of developing corporate governance guidelines and codes of best practice. This was in response to problems in the corporate performance of leading organizations, the perceived lack of effective board oversight that contributed to performance problems and pressure for change from institutional investors.
In the year 1992 in the United Kingdom, the Cadbury committee report, defined corporate governance as "the system by which organizations are directed and

controlled", became a pioneering reference code for stock exchanges both in UK and abroad. General Motors Board of Directors Guidelines in the U.S., and the Dey Report in Canada also proved to be influential sources for guidelines and code initiatives adopted by other countries. in July 2003, in U.K., the Financial Reporting Council (FRC) of the U.K. published the new Combined code which was referred to as "U.K. code (2003)" thereafter.
The U.K. Code (2003) was based on the proposed revision of the Cabined Code (1998), in the report by Derek Higgs on the role and effectiveness of non-executive directors, which incorporated the recommendations on audit committees by Robert Smith.

The most significant changes in the code were as follows:

-the expanded definition of independent director;
-an increase in the recommended proportion of independent directors from one-third to a majority of the Board for larger listed organizations;
- Separate Chairperson and CEO Chairperson being an independent director.
-Stringent guidelines on membership of the Audit Committee; -Increased emphasis on the need for internal audit and control functions;
Allows for some differences in corporate governance arrangements for larger and smaller organizations, particularly pertaining to the number and proportion of independent directors on the Board and number of members on certain Board committees.

Following various other committee recommendations in different nations of the world, there have been efforts to homogenize the code of corporate Governance, particularly in listed organizations.
In the U.S., in 1998, the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) sponsored a committee to study the effectiveness of audit committees.

This committee was known as the Blue Ribbon Committee and was set up to improve the effectiveness of Corporate Audit Committees. In its 1999 report, the Blue Ribbon Committee recognized the importance of audit committees and issued ten recommendations to enhance their effectiveness. In response to these recommendations, the NYSE and the NASD, as well as other exchanges, revised their listing standards relating to audit committees. In 2002, the Sarbanes-Oxley Act was passed in response to a number of major corporate and accounting scandals involving prominent companies in the United States. This Act is considered to be one of the most significant changes to federal securities laws in the United States.
An interesting aspect in the Sarbanes Oxley Act is the protection to whistleblowers. The Organization for Economic co-operating and Development (OECD) Principles of Corporate Governance, originally adopted by the 30 member countries of the OECD in 1999, have provided a good insight into corporate governance framework at a macro level.

Following an extensive review process that led to adoption of revised OECD Principles of Corporate Governance 2004, they now reflect a global consensus regarding the critical importance of good corporate governance in contributing to the economic viability and stability of Corporate Governance 193 Strategy Implementation and

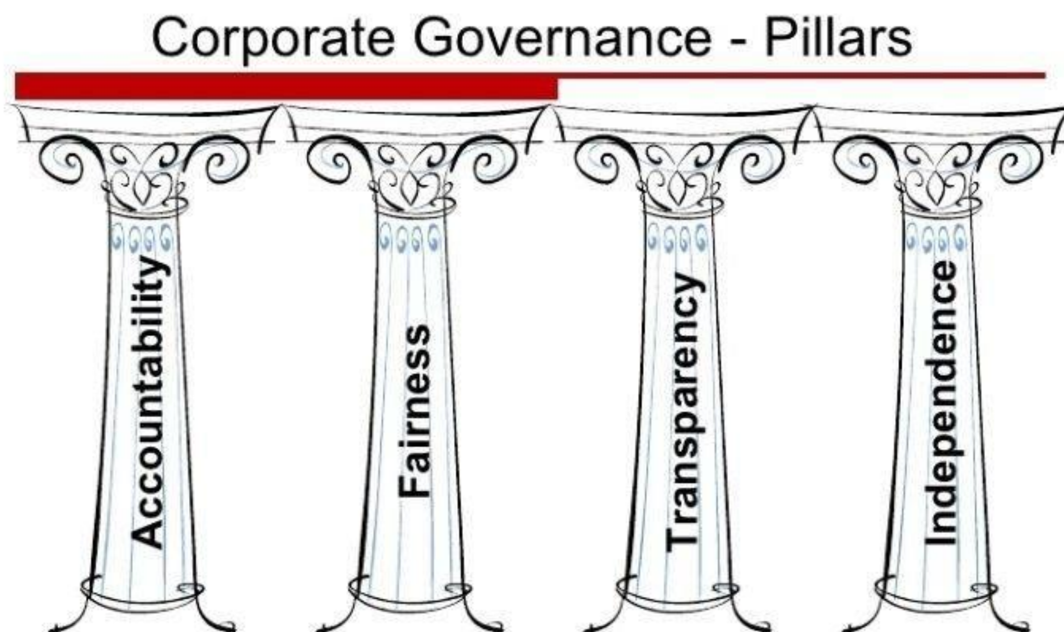
Control our economies. OECD Principles of Corporate Governance reflects not only the experience of OECD countries but also that of emerging and developing economics

PILLARS OF CORPORATE GOVERNANCE

There are four pillars for successful corporate governance. They are accountability, fairness, transparency and Independence.

Accountability: Accountability refers to answer-ability or liability. Shareholders are interested in who will responsible for which operation and liable for when something goes wrong. And even when everything goes smoothly as expected, knowing that someone will be held accountable for future mishaps increases shareholders' confidence, which in turn increases their desire to invest more. This applies from the staff all the way up to top leadership embracing Risk management within defined formal appetite for risk. This also include fostering culture of compliance to create real and perceived believe that the entity is operation within internal and external boundaries

Fairness: Fairness means "treating all stakeholders equally and ensure their rights. The corporate governance framework should protect shareholder rights and ensure the equitable treatment of all stakeholders, including minority and foreign shareholders. Organization should respect the right of shareholder and encourage them to exercise their rights.



Transparency: Transparency refers to clarity i.e. everything going in the organization should be crystal clear, nothing to hide. Organization should provide timely accurate

disclosure of information about all activities in the organization such as financial situation, social and environmental factors, performance etc. Transparency is a critical component of corporate governance because it ensures that all of entity's actions can be checked at any given time by an outside observer. This makes its processes and transactions verifiable, so if a question does come up about a step, the company can provide a clear answer

Independence: Independence means the right of taking decision without any influence. Good corporate governance requires independence on the part of the top management of the corporation i.e. the Board of Directors must be strong non-partisan body; so that it can take all decisions based on business prudence. In progressing transparency it is important for non-direct actors to obtain confidence that that executive actors are leading the entity towards per-defined intent and not using it for self and obtain expert advisory on how applied approached can be improved.

In summary, combining all four pillars of Corporate Governance can be beneficial for the company. Though combining those pillars is not an easy task to do but companies' now-a-days use governance software to makes things easy. It also makes the process more transparent by keeping clear and complete documentation at all times. Having a clear understanding of the principles and practices of good governance will enhance the performance of both the individual and the organization.

RECENT PILLARS OF CORPORATE GOVERNANCE

Corporate governance is a combination of five pillars. The objectives of these pillars help an organization in the implementation of strategy. These pillars are:
1. Accountability
2. 2. Fairness
3. 3. Transparency
4. 4. Integrity
5. 5. Social responsibility

All these pillars are critical for the success of an organization. This helps in developing a strong relationship with the shareholders and all stakeholders.

1. Accountability: This is a form of ownership strategy which means owning the rewards and failures/risks in the context of the value proposition by an organization. Accountability should be applicable at all levels from the lower management to the top management, and then only it works.

2-Fairness: This means treating all the stakeholders equally without any demarcation of caste, status etc. This involves effective communication as well.

4. Transparency: This is one of the most important pillars of corporate governance as it gives credibility to an organization. Transparency means, disclosing all the information which are relevant and important for all the shareholders and stakeholders so that they are not in dark about the performance of an organization.

5. Integrity: It is important for any organization and this comes through a professional culture where each employee is given importance which makes him/her to perform at their best.

6. Social responsibility: This applies at the top management level. The decision taken at the top should be such that they benefit the organization as a whole. Therefore, it is important that the organization should have a clear understanding of these pillars and practice there accordingly.

Recent trends in corporate governance include:

- **Environmental, Social, and Governance (ESG) reporting**
- Investors are pressuring companies to report on their ESG factors, which are linked to sustainability and good governance.

Board diversity

- More companies are focusing on increasing the diversity of their boards, especially gender diversity.

Digital governance

- Companies are using digital tools like AI-driven analytics, cybersecurity measures, and digital communication platforms.

- **Shareholder activism**

  Investors are increasingly focusing on corporate responsibility and ethical conduct.

- **Cybersecurity governance**

  Boards are prioritizing cybersecurity governance to protect sensitive data and corporate assets.

- **Human capital management**

  Companies are focusing on human capital management, including how to manage employees who work remotely.

- **Hybrid and virtual meetings**

  Companies are using hybrid and virtual models for board and shareholder meetings.

- **Data privacy regulations**

  Companies are complying with data privacy regulations like the General Data Protection Regulation (GDPR).

- **Stronger ethical standards**

  Companies are reinforcing their ethical standards and developing a strong "tone at the top" culture.

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Current trends in corporate governance

The world has changed significantly in the past year, and the business landscape is poised to evolve further. As such, these trends in corporate governance for 2025 aren't just about boardroom conversations. They are about how internal and external forces will fundamentally reshape corporate operations — and what boards need to know to stay ahead.

Trend 1: Generative AI will be a significant opportunity for organizations that can balance regulations and readiness

Technology is already omnipresent in many boardrooms. For years, tools like board portals have streamlined collaboration and fostered security and transparency. In 2025, Generative AI is posed to transform the boardroom and broader corporate operations. However, boards must balance developing readiness and anticipating regulations on the road to adoption.

69% of organizations are delaying AI investment decisions due to an expected regulatory increase. Many parts of the world lack broad AI regulations, but Europe's impending EU AI Act sheds light on many regulators' priorities: ethics and transparency.

At the same time, readiness is emerging as one of the most significant indicators of AI success. Organizations need AI policies that advance the right talent and structure to cultivate this new technology.

"Unless we genuinely overcome the hype and focus on building humane trust and organizational readiness, AI is unlikely to gain meaningful adoption in the enterprise. Without meaningful adoption, achieving real value with AI could remain a distant promise," says Florin Rotar, Chief AI Officer at Avanade

These policies will likely revolve around leveraging AI to increase efficiency and productivity while decreasing costs.

Trend 2: Corporate culture will reckon with financial fraud and abuse

Financial fraud can plague even the most outwardly successful organizations. In 2025, the challenge will be building a corporate culture that roots out bad actors. This is easier said than done, given that corporate culture isn't always effective at promoting transparency.

"There's often an inclination to avoid bad news, with a hope that problems will be resolved before they escalate to the board level," says Pav Gill, CEO of Confide.

Trend 3: Ethics will be a key focus

New technology may introduce new ethical issues. AI, for example, isn't readily transparent and has biases, which can complicate data-gathering and decision-making for boards striving to offer their shareholders greater visibility.

At a time when shareholders are already concerned with boardroom practices, new technology will only intensify the ethical issues boards face. Quickly evolving global regulations and AI technologies have challenged companies to ramp up.

Trend 4: Cybercrime is on the rise, emphasizing the need for strong controls

Cybercrime is the biggest risk most organizations will face in 2025. The ever-increasing value of data largely fuels this threat.

"Digital assets drive valuation, and the most valuable businesses are data-centric. This means the bread and butter of your business would then be impacted in a cyber incident," says Anastassia Lauterbach, CEO and founder of AI Edutainment.

Generative AI has also increased organizations' attack surface by an estimated 67%. The cost of breaches is projected to rise from $9.22 trillion in 2024 to $13.82 trillion by 2028. Unprepared organizations could face potentially irreparable damage at the hands of cybercriminals.

Trend 5: Better data infrastructure will unlock shorter board meetings and more agile boards

Boards have incredible responsibilities, all of which require complete oversight of business activities. Yet, in many cases, outdated reporting structures make it difficult for boards to access the information they need to make key decisions.

Many boards are now embracing a shared trend in corporate governance: better dashboards. Centralizing risk data to monitor and mitigate risk frequently has the potential to shape more proactive boards.

"The quarterly board meeting will probably be a lot shorter because the board will have met several times in between," says Schindlinger. "We will have had quick little touch bases because we saw something on the dashboard. Things are moving way too quickly for boards to wait for a perfectly crafted board deck."

Trend 6: Corporations need to nurture and attract young talent

The workplace will transform over the coming years. 58% of the global workforce will be Millennials or younger by 2030, many of whom were hired during the pandemic and have primarily worked remotely. Job hopping — switching jobs frequently — has also emerged as a break from traditional corporate culture.

"They've never been in an office. They don't know what corporate culture looked like pre-pandemic because they're not a part of that history," says Schindlinger.

Trend 7: All eyes are on board evaluations

Investors and consumers continue to focus on board effectiveness. They want to see board directors and company executives fulfill their fiduciary duties and act with integrity. That means boosting financial performance and considering the broader impact of corporate activities.

Current trends in corporate governance

Trend 1: Politics are influencing the boardroom

Many people view The United Nations' 2004 Who Cares Wins report as the document that made environmental, social and governance (ESG) mainstream. So, while ESG isn't a new corporate governance trend, how it's politicizing the boardroom is.

Politicians on both sides of the aisle have different opinions on ESG and, as a result, different ideas about what constitutes good governance. The recent election in the U.S. only underscores the worldwide shift to the right, opening the door to changes in ESG policy and governance more broadly.

Trend 2: Boards are facing increased scrutiny from all sides

In the post-universal proxy era, shareholders continue to hold boards accountable — often in surprising ways. Governance proposals increased for the first in recent years during the 2024 proxy season, as did compensation proposals.

Support for say-on-pay proposals also remained high, underscoring shareholders' desire to have their voices heard. The universal proxy process has also opened doors for unions following recent high-profile strikes, with many unions submitting more proposals in 2024 than they did in years Trend 3: Economic uncertainty changing company strategies

At the end of 2022, economists and corporations feared the following year would bring a recession. Rising interest rates and inflation only added to the pressure for boards to perform despite growing uncertainty.

Many companies prepared throughout 2023 by laying off employees, attempting to retain valuable workers and offsetting the fluctuating workloads with contractors. By 2024, the Fed announced that a recession might not occur and has even implemented several rate cuts. With the impending swearing-in of the Trump Administration in January 2025, boards are bracing themselves for swift policy shifts, regulatory changes and broad tariffs that could have a far-reaching impact on corporations.

Trend 4: Stakeholders want greater CEO oversight

Consumer skepticism about CEO compensation isn't new. Many consumers and even many shareholders believe CEOs are overcompensated. More transparent compensation packages can counter this scrutiny, but CEOs will likely remain in the spotlight.

Over the past year, boards and executives have taken that attention seriously. In PwC's Annual Corporate Directors Survey, 71% said their boards took action related to shareholder activism in 2024. This action has largely been

driven by boards' desire to engage with shareholders proactively. In fact, 26% of directors say they also revised compensation structures to keep with shareholder expectations

SELF-ASSESSMENT QUESTIONS

1) Define Corporate Governance. Why is it important for organizations to follow corporate governance practices?
2) Describe different models of Corporate Governance.
3) Explain the concept of business ethics citing examples.
4) In the present context what are the major challenges that the corporate sector is facing regarding implementing Corporate Governance.
5) How can you relate Corporate Governance with Strategy? Discuss.

Questions and Answers: Corporate Governance

1. What is corporate governance? Explain its meaning.

Answer:
Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It ensures accountability, fairness, and transparency in a company's relationship with stakeholders, including shareholders, management, customers, suppliers, financiers, government, and the community.

2. Why is corporate governance significant?

Answer:
Corporate governance is significant because:

It enhances a company's accountability and reputation.

Ensures compliance with legal and regulatory requirements.

Improves operational efficiency and decision-making.

Protects shareholders' interests and fosters trust among stakeholders.

Contributes to economic development by improving company performance.

3. What are the main functions of corporate governance?

Answer:
The functions of corporate governance include:

Establishing a framework for corporate decision-making.

Defining roles and responsibilities of the board, management, and shareholders.

Monitoring performance and ensuring accountability.

Protecting minority shareholders' rights.

Aligning corporate activities with stakeholders’ interests and ethical standards.

4. What are the primary objectives of corporate governance?

Answer:
The objectives of corporate governance are:

Ensuring transparency in company operations.

Maintaining accountability of the management.

Safeguarding stakeholders’ interests.

Promoting ethical practices and corporate social responsibility.

Enhancing investor confidence and financial stability.

5. How did corporate governance evolve in India?

Answer:
Corporate governance in India evolved through several stages:

Pre-Liberalization Era (Before 1991): Minimal focus on governance, family-owned businesses dominated.

Post-Liberalization Era (After 1991): Economic reforms introduced; SEBI established to regulate securities.

2000s: Introduction of mandatory corporate governance norms under Clause 49 of the Listing Agreement.

2013: Companies Act, 2013, introduced comprehensive provisions for corporate governance.

Recent Developments: Enhanced focus on ESG (Environmental, Social, and Governance) criteria, shareholder activism, and board diversity.

6. What are the pillars of corporate governance?

Answer:
The pillars of corporate governance are:

1. Transparency: Clear and honest communication of company information.

2. Accountability: Responsibility for decisions and their outcomes.

3. Fairness: Equitable treatment of all stakeholders.

4. Responsibility: Adherence to legal and ethical standards.

7. What are the components of corporate governance?

Answer:
Key components include:

Board of Directors: Oversee the management and provide strategic guidance.

Management: Execute strategies and manage daily operations.

Shareholders: Provide capital and oversee governance through voting rights.

Auditors: Ensure compliance with financial and regulatory standards.

Regulatory Framework: Laws and regulations guiding governance practices.

8. What are the recent developments in corporate governance in India?

Answer:
Recent developments include:

Increased emphasis on ESG reporting and sustainability.

Enhanced roles for independent directors under SEBI norms.

Provisions for whistleblower mechanisms and fraud detection.

Mandatory board diversity, with a focus on women directors.

Stricter enforcement of related-party transaction regulations.

9. How does corporate governance ensure accountability?

Answer:
Corporate governance ensures accountability by:

Defining clear roles and responsibilities for the board and management.

Requiring regular reporting and disclosure of financial and operational performance.

Monitoring by independent auditors and regulatory authorities.

Allowing shareholder participation in major decisions.

10. Why are transparency and fairness important in corporate governance?
Answer:
Transparency and fairness are vital as they:

Build trust among stakeholders.

Ensure accurate and timely information is shared.

Prevent conflicts of interest and unethical practices.

Promote equitable treatment of all stakeholders, especially minority shareholders.

More Questions and Answers: Corporate Governance

11. What are the key challenges faced in implementing corporate governance?

Answer:
Key challenges include:

Lack of awareness among stakeholders.

Conflicts of interest within boards.

Ineffective enforcement of laws and regulations.

Resistance to change in corporate culture.

Insufficient accountability mechanisms.

12. How does the Companies Act, 2013, strengthen corporate governance in India?

Answer:
The Companies Act, 2013, strengthens corporate governance by:

Introducing mandatory appointment of independent directors.

Establishing audit committees to monitor financial integrity.

Requiring corporate social responsibility (CSR) initiatives.

Enhancing disclosure norms for related-party transactions.

Implementing stricter penalties for non-compliance.

13. What role does SEBI play in corporate governance?

Answer:
SEBI (Securities and Exchange Board of India) plays a critical role by:

Setting guidelines for listed companies under the Listing Obligations and Disclosure Requirements (LODR).

Monitoring compliance with corporate governance norms.

Protecting investor interests through transparency and fair practices.

Mandating disclosures related to ESG, board composition, and risk management.

14. What is the role of independent directors in corporate governance?

Answer:
Independent directors ensure:

Objective decision-making by providing an unbiased perspective.

Oversight of management and protection of minority shareholders.

Proper functioning of audit, nomination, and remuneration committees.

Accountability in related-party transactions and risk management.

15. How does corporate governance contribute to sustainable business practices?

Answer:
Corporate governance promotes sustainability by:

Encouraging ethical and transparent operations.

Focusing on long-term growth rather than short-term profits.

Incorporating environmental, social, and governance (ESG) considerations into decision-making.

Building trust with stakeholders and fostering innovation.

16. What is the significance of board diversity in corporate governance?

Answer:
Board diversity is significant as it:

Brings varied perspectives and skills to decision-making.

Enhances problem-solving and innovation.

Improves representation of different stakeholder interests.

Increases trust among investors and customers.

17. What are related-party transactions, and why are they important in corporate governance?

Answer:
Related-party transactions are dealings between the company and its related entities (e.g., subsidiaries or directors). They are important because they:

Require transparency to avoid conflicts of interest.

Ensure fair pricing and compliance with legal norms.

Prevent misuse of company resources.

18. What is the importance of whistleblower policies in corporate governance?

Answer:
Whistleblower policies are crucial as they:

Provide a mechanism for reporting unethical or illegal activities.

Protect whistleblowers from retaliation.

Help in identifying fraud, corruption, and governance lapses.

Enhance transparency and accountability within the organization.

19. How does corporate governance differ between public and private companies?

Answer:

Public Companies: Follow stricter governance norms due to public accountability, including disclosures, board composition, and compliance with SEBI regulations.

Private Companies: Have more flexibility, but still need to ensure accountability to stakeholders like investors and regulators.

20. How do corporate governance practices impact a company's financial performance?

Answer:
Effective corporate governance leads to:

Increased investor confidence, attracting more capital.

Better decision-making and resource allocation.

Reduced risk of fraud and financial mismanagement.

Improved operational efficiency and profitability.