



STRATEGIC MANAGEMENT

Corporate Governance

GURU GOBIND SINGH INDRAPRASTHA UNIVERSITY, NEW DELHI
MASTER OF BUSINESS ADMINISTRATION (ON WEEKEND BASIS)

Strategic Management

Course code: MBA 202

L-2, Credits: 3

Objective: To develop an understanding of the Strategic Management process in a dynamic and competitive global environment.

Course Contents

Unit I

Nature of Strategic Management: Concept of Strategy; Vision Mission, Goals and Objectives; External Environmental Analysis; Analyzing Companies Resource in Competitive Position; Mintzberg's 5Ps of Strategy; Strategic Management Process, **Corporate Governance. (10 Hours)**

Unit II

BY THE END OF THIS SESSION, YOU WILL KNOW...

- What is Corporate Governance?
- Board of Directors – Who, Why, What, When, If not.
- Types of BoD
- Role of BoD in Top Management
- Involvement of BoD in Top Management
- Trends in Corporate Governance

FOUR RESPONSIBILITIES OF BUSINESS

- Economic
- Legal
- Ethical
- Discretionary

FOUR RESPONSIBILITIES OF BUSINESS

- ⊙ Economic - Must do
- ⊙ Legal - Have to do
- ⊙ Ethical - Should do
- ⊙ Discretionary - Might do

Social Responsibility – includes Ethical & Discretionary

Ethical Responsibility:

⊙ Utility: does it optimise the satisfaction of the stake holders? (Should behave in such a way that it produces the greatest benefit to the society and least harm the lowest cost)

⊙ Rights: does it respect the rights of the individuals involved?

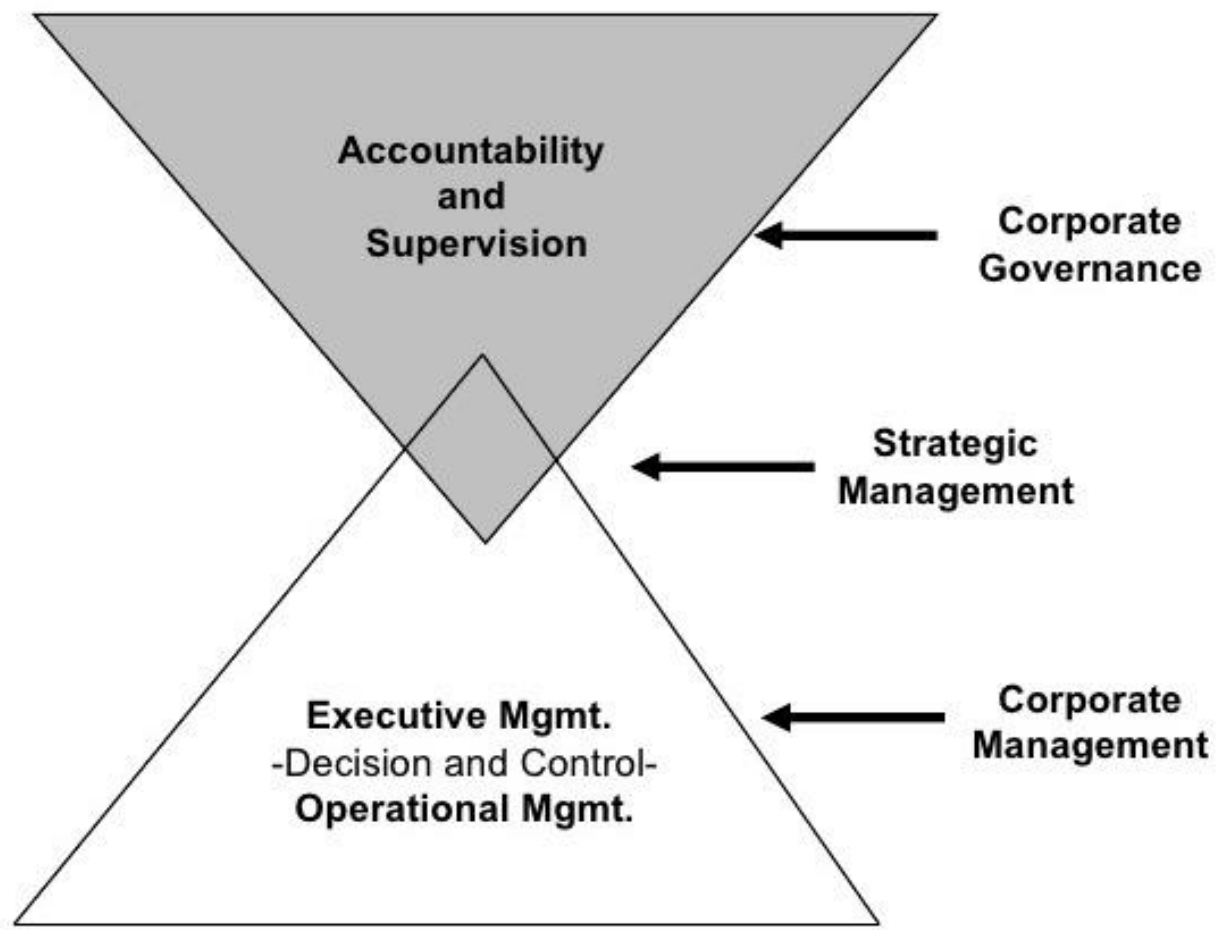
⊙ Justice: is it consistent with the canons of justice (decision makers should be equitable, fair and impartial in the distribution of costs and benefits to individuals and society)

What is Corporate Governance?

If management is about running the business, corporate governance is about seeing that it is run properly.

All companies need managing and governing.

GOVERNANCE VERSUS MANAGEMENT



Source: Robert Tricker, Corporate Governance,

Definition

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards it.

SAYTAM SCANDAL (2009)

COMPANY

Indian IT services and back-office accounting firm



WHAT HAPPENED

Falsely boosted revenue by **\$1.5 billion**.



MAIN PLAYER

Founder/Chairman Ramalinga Raju

HOW HE DID IT

Falsified revenues, margins and cash balances to the tune of 50 billion rupees.



HOW HE GOT CAUGHT

Admitted the fraud in a letter to the company's board of directors.

PENALTIES

Raju and his brother charged with breach of trust, conspiracy, cheating and falsification of records. Released after the Central Bureau of Investigation failed to file charges on time.



FUN FACT

In 2011 Ramalinga Raju's wife published a book of his existentialist, free-verse poetry.



ENRON SCANDAL (2001)

COMPANY

Houston-based commodities, energy and service corporation



WHAT HAPPENED

Shareholders lost \$74 billion, thousands of employees and investors lost their retirement accounts, and many employees lost their jobs.



MAIN PLAYERS

CEO Jeff Skilling and former CEO Ken Lay



HOW THEY DID IT

Kept huge debts off the balance sheets.



HOW THEY GOT CAUGHT

Turned in by internal whistleblower Sherron Watkins; high stock prices fueled suspicions.



FUN FACT

Fortune Magazine named Enron "America's Most Innovative Company" for six years in a row prior to the scandal.



Corporate Governance - Parties

Share- holders

Those that own
the company

Directors

Guardians of
the Company's
assets for the
Shareholders

Manager

Who use the
Company's
assets

Principles Players of Corporate Governance

Management



Banks and lenders



Board of Directors



Customers



Shareholders



Employees



Environment & the community at large



Regulators



Suppliers



STRUCTURE OF CORPORATE GOVERNANCE

BOD - Oversees the running of the enterprise by C.E.

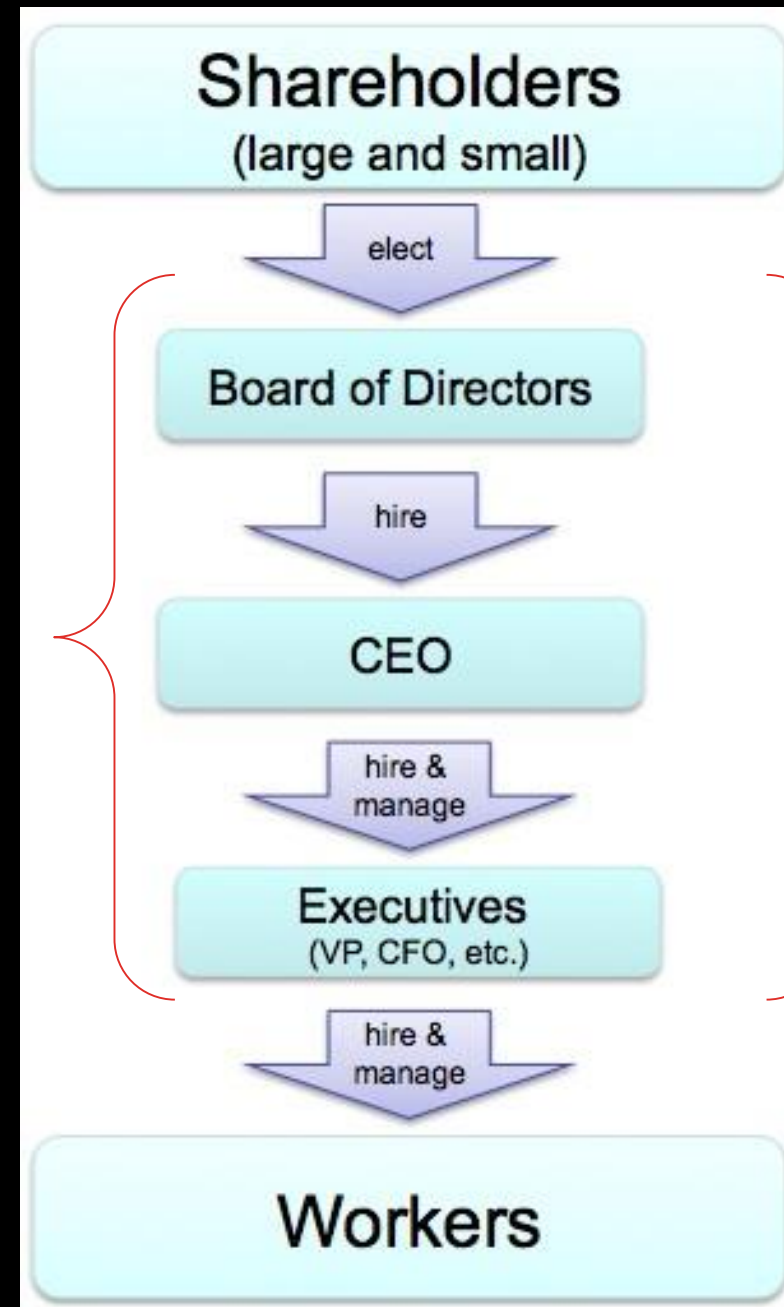
DIRECTORS - Individually have no power; collective body of directors has superior total power over C.E.

Powers of BODs as per Companies Act Section 292:

- Make calls on behalf of shareholders in respect of (Issue debentures, dividends)
- Decisions on capital markets (IPO / Debentures)
- Invest funds of the Co.

BODs - Expected to meet once in a quarter; (Quorum 1/3 of total strength or 2 directors whichever is higher)

- 2 or 3 in small private companies to 20 in large public companies



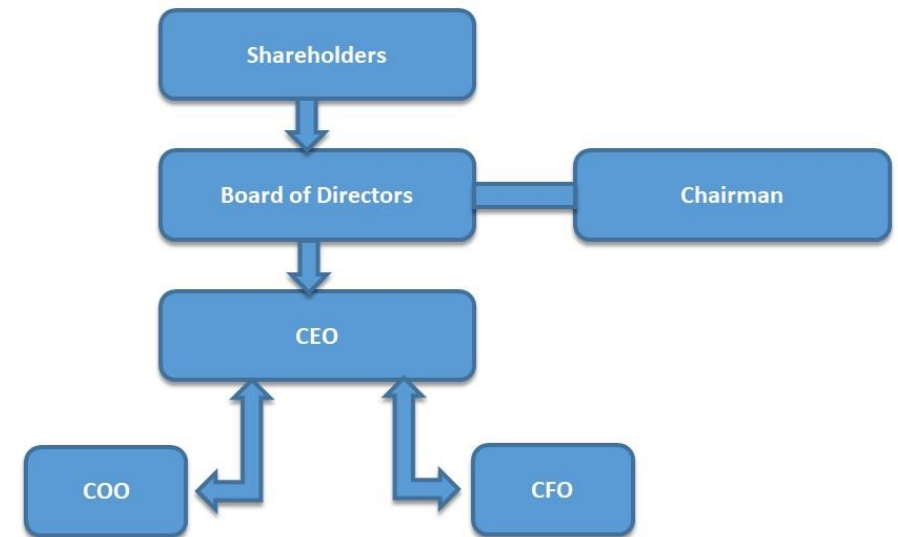
Corporate Planners

EXPECTATIONS FROM BOARD OF DIRECTORS

- Expected to meet once in a quarter (Quorum 1/3 of total strength or 2 directors whichever is higher)
- Marginal / incremental decisions
- To remain effective on technology and market changes
- Divestment and diversification on sound lines
- Long-term productivity & quality not sacrificed for short-term profitability
- Judicious earnings retention policy (*Retention ratio is the percentage of net income that is retained to grow the business, rather than being paid out as dividends.)*)
- Sound human values and exalted corporate culture

TYPES OF DIRECTORS

- Executive and Non Executive



	Executive Director	Non Executive Director
1.	Executive directors do get involved in the day-to-day running of the business.	Non-executive directors do not get involved in the day-to-day running of the business.
2.	Executive directors perform operational and strategic business functions such as: <ul style="list-style-type: none"> ▪ managing people ▪ looking after assets ▪ hiring and firing ▪ entering into contracts 	Non-executive directors use their experience and expertise to provide independent advice and objectivity, and they usually have a role in monitoring executive management.
3.	Works Full time	They usually work part time, attending board meetings and spending time on specific projects.
4.		Non-executive directors are expected to monitor and challenge the performance of the executive directors and the management, and to take a determined stand in the interests of the firm and its stakeholders.
5.	Executive directors receive a salary A company may decide to include shares, share options, pension provision, company cars or incentive schemes in directors' remuneration packages.	Non-executive directors may receive a salary if employed, or receive fees if self-employed.
6.	They are generally held equally liable under certain statutory requirements such as tax laws.	

TOP MANAGEMENT

- **CEO and his / her team**
- **Responsible to BOD for overall management of organization**
- **Strategist, organization builder & leader - Flag Flying, Transmits and receives signals from external environment**
- **General manager and above are considered part of top management**

TOP MANAGEMENT BEHAVIOR ROLE

Behavioural Roles

- Interpersonal

**: Figurehead (for ceremonial duties)
Leader (to provide direction)
Liaison agent (for outside contracts)**

- Informational

**: Monitor (of information)
Disseminator (within the organisation)
Spokesman (to external organisation)**

- Decisional

**: Entrepreneur
Disturbance handler
Resource allocator
Negotiator**

CEO SKILLS

Dynamism

Decisiveness

Humane approach

Conscientiousness

Ability to understand worker's needs

Appealing personality

Objectivity

Communication

MANAGEMENT STYLES BASED ON DEGREE OF INVOLVEMENT

Degree of involvement by top management

High	Entrepreneurship management	Partnership management
Low	Chaos management	Stipendiary management
	Low	High

Degree of involvement by BODs

Corporate Governance - Pillars

