CHAPTER - IV

CORPORATE GOVERNANCE AND STAKEHOLDERS
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The essence of corporate governance is to conduct the corporate affairs in a manner that ensures fair treatment to all the stakeholders and bringing efficiency and effectiveness in corporate operations through transparent and fair dealings. The shareholders being capital providers can influence the board and management in improving the governance system of a corporate. The other stakeholders—suppliers, lenders, employees, customers, the regulators, and the society—form an integral part of governance system and contribute towards the functioning and policy framework of a corporate.

The relationship of the stakeholders and quality of their contestability within and outside the corporate contributes to the improvement of corporate governance. The board, having a mandate of the owners, is expected to ensure proper functioning of the corporate with required level of freedom to the management without compromising on the corporate's strategic goals. The Cadbury and other important committees worldwide have time and again mentioned that the board of directors of a corporate is in the center of the governance system.

4.1 THE MULTISTAKEHOLDERS PARADIGM

The corporate is having multiple stakeholders. The principal stakeholders are the shareholders who are the ultimate owners of the corporate. The corporate entity is having other stakeholders, namely, suppliers, lenders, employees, customers, the regulators, and the society. The identification of stakeholders is directly linked to the formal structure of an organization which varies from country to country.

The central proposition at the heart of the stakeholder approach is that the purpose—the objective function—of the firm should be defined more widely.
than maximization of shareholders welfare alone. In particular, it holds that there should be some explicit recognition of the well-being of other groups having a long-term association with the firm—and therefore an interest or stake in its long-term success. These groups are usually taken to include suppliers, customers, and particularly employees. It is also a central plank of the stakeholder model that a wider objective function is not merely more equitable but also more socially efficient than one confined to shareholders' wealth.

The stakeholder model as cited above signifies the dual role of the corporate in the area of corporate governance namely maximization of shareholders wealth and equitable treatment of other stakeholders by appreciating their rights, duties, and responsibilities vis-à-vis the corporate. The corporate is expected to develop a reputation for the ethical treatment of other stakeholders, which would build up trust relations for the mutual benefit of the corporate and the other stakeholders in the long run. In this direction, the board is required to know the stakeholders' expectations from the corporate.

4.2 POWER OF THE STAKEHOLDERS

In a corporate, the stakeholders are having powers to influence the strategies and expectations. The board is expected to know the various source of power of the multiple stakeholders to make an assessment of how powerful is a stakeholder in influencing the strategic developments. The analyses of power must therefore begin with an assessment of source of power. There are four useful indicators of power in case of internal stakeholder the status, the claim on resources, representation in powerful positions and symbols of power. There is a slight difference in the indicators of power held by external shareholders, the status, the resource dependent negotiating arrangements with a corporate and symbols. No single measure will give a full understanding of the extent of power held by external stakeholders but the combined analyses will be very useful.
Proper and timely analysis of multiple stakeholders' power by the board would enable the corporate to resolve the expectation gaps. The issues of accountability to the shareholders and responsibilities to the stakeholders are of much significance to the board of directors. As regards stakeholders, different types of corporate will have different relationships, and directors can meet their legal duties to shareholders and can pursue the objective of the long term shareholders value successful only by developing and sustaining these stakeholders' relationships. We believe that shareholders recognize that it is in their interest for corporates to do this and increasingly to have regard to the broader public acceptability of their conduct.

The stakeholder model also requires the board to discharge responsibility of trusteeship towards the society in understanding the product/service needs of the society and proper conduct of the corporates' affairs by entrusting the power of control and conduct to the management. This extended role of the board flows from the fact that the corporate is drawing natural, financial, and human resources from the society in the process of converting economic value for products and services.

Here, an attempt is made to analyze the relations of multiple stakeholders with the corporate and bring out the areas of expectation gaps with corrective measures.

4.3 ROLE OF THE SHAREHOLDERS

The shareholders' composition comprises of dominant minority institutional and government segments. The institutional and dominant shareholders are having large stakes in the paid-up share capital of the corporates in advanced countries. UK Institutions Pension Funds Insurance corporates Unit and Investment Trusts hold 60% of shares in listed UK corporates. Of the remaining 40%, about a half are owned by individuals, and the rest by overseas owners mainly institutions. Institutional investors are not
homogeneous groups. In developing countries, especially India, the shareholding pattern is mainly from promoters' quota small or marginal shareholders. In effect, the promoter shareholders continue to influence majority decisions of the corporate due to majority voting power with them. The small or marginal shareholder is not in a position to exert influence on the decision-making exercise even though they are present in the annual general meeting of the corporate. Small shareholders generally have little incentive to pursue monitoring or corrective actions for the reasons that they bear all the cost of such actions but stand to receive only a fraction of the benefit. The AGM is often the only opportunity for the small shareholders to be fully briefed on the corporate's activities and to question senior managers on both operations and governance matters. The impact of private shareholders on Corporate Governance cannot be great; there should be a support to those who wish to exercise their rights actively.

The control aspect of a corporate entity is by and large vested with dominant shareholders or core promoter shareholders, leaving no scope of control and supervision in the governance mechanism of a corporate entity by the small or marginal shareholders.

The right to vote is an important part of the asset represented by a share, and an institution has a responsibility to the client to make considered use of it. The principle of one vote per share is required to be supported by a sound working system of proxy and postal ballots. The present laxity of non-use of proxy forms by the shareholders, especially small or marginal, is required to be improved so as to give more powers of control to the small shareholders. The system of postal ballots can solve the problem of control by the minority shareholders only in the conditions of the increased awareness of investor's protection and demanding a fair play from the corporate by small shareholders on line with dominant shareholders.

The small shareholders are not accessing the information relating to performance, financial standing problems faced, future targets, and plans of
the corporate thus resulting in lack of control on the corporate functioning in an effective manner. The minority shareholders lack effective monitoring when compared to institutional shareholders. The board under the influence of dominant shareholders may resort to such acts which endanger the interest of small shareholders. The regulatory system must be in place to address such abuse of power by the dominant shareholders. Better laws could reduce tunneling in the corporate functioning. Indeed, every tunneling technique is associated with a loophole in the law—so it can be argued that closing those loopholes will reduce tunneling.

The shareholders survey can also be conducted annually to assess their satisfactory level on the contents of annual reports and mode of contact. The shareholders grievance/welfare committee or the board of directors can conduct such survey. The result from such survey could be utilized to improve the quality of service to the shareholders. The preferred communication modes of the shareholders would help to cater to their requirements in a time-bound manner. The suggested formats are appended in the Appendix III.

### 4.4 ROLE OF INSTITUTIONAL SHAREHOLDERS

The institutional shareholders are dominant shareholders having capability and muscle power to exert influence on the corporate decision-making process. Dominant shareholders' interest mainly focuses on profit maximization rather than general economic welfare of the shareholders. Since most of the directors represent them on the board of a corporate, the institutional investors are having access to vital corporate functioning information. The institutional shareholders can monitor the corporate performance and arrive at conclusions on the outcome such monitoring. This will result in more informed and complete decision-taking on the functioning of the corporate by the institutional investors. The individual action is always preceding collective action against the corporates' attitude towards protecting the shareholders' interest. Collective efforts are required to correct corporate governance problems.
Institutional investors in equity markets of US continued to hold a dominant share in total outstanding equity and thereby demanding good corporate governance from the corporates. The following table shows that the institutional equity growth has gone up from 6.1% in 1950 to 47.4% in 1998 on market value of total outstanding equity in US.
Table No 41 Total Equity Market Growth Vs Institutional Equity Growth 1950 1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Value of Total Outstanding Equity ($ billions)</th>
<th>Market Value of Total Institutional Equity Holdings ($ billions)</th>
<th>Institutional Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>$142 70</td>
<td>$8 70</td>
<td>6.10%</td>
</tr>
<tr>
<td>1960</td>
<td>421 2</td>
<td>52 9</td>
<td>12.6</td>
</tr>
<tr>
<td>1970</td>
<td>859 4</td>
<td>166 4</td>
<td>19.4</td>
</tr>
<tr>
<td>1980</td>
<td>1534 7</td>
<td>519 9</td>
<td>33.9</td>
</tr>
<tr>
<td>1988</td>
<td>3098 9</td>
<td>1368 7</td>
<td>44.2</td>
</tr>
<tr>
<td>1989</td>
<td>3809 7</td>
<td>1710 7</td>
<td>44.9</td>
</tr>
<tr>
<td>1990</td>
<td>3530 2</td>
<td>1665 9</td>
<td>47.2</td>
</tr>
<tr>
<td>1991</td>
<td>4863 6</td>
<td>2065 5</td>
<td>42.5</td>
</tr>
<tr>
<td>1992</td>
<td>5462 9</td>
<td>2423 2</td>
<td>44.4</td>
</tr>
<tr>
<td>1993</td>
<td>6278 5</td>
<td>2909 4</td>
<td>46.2</td>
</tr>
<tr>
<td>1994</td>
<td>6293 4</td>
<td>3027 9</td>
<td>48.1</td>
</tr>
<tr>
<td>1995</td>
<td>6345 4</td>
<td>3889 5</td>
<td>46.6</td>
</tr>
<tr>
<td>1996</td>
<td>10064 4</td>
<td>4909 1</td>
<td>48.8</td>
</tr>
<tr>
<td>1997</td>
<td>12776</td>
<td>6225 7</td>
<td>48.7</td>
</tr>
<tr>
<td>1998</td>
<td>$15 437 70</td>
<td>$7 314 50</td>
<td>47.40%</td>
</tr>
</tbody>
</table>

Source: The Conference Board's Global Corporate Governance Research Centre

The influence of institutional equity holdings in US corporates has compelled such corporates to adopt and practice acceptable corporate governance principles. Despite their substantial growth, institutional investors have not captured an appreciable larger share of total outstanding of US equities for the obvious reasons namely equity markets have swelled due to an unprecedented number of initial public offerings and growth in small capital mobilization by the Corporates.

The wave of corporate restructuring in the 1980s and early 1990s dampened corporate pension fund growth and left many individuals uncovered or in fear of losing their retirement income. Investors shifted their investment portfolio to a conservative form with a view to get fixed income securities and privately held securities. Despite these factors, the corporates seeking institutional investment in the form of equity responded to the corporate governance issues in an effective manner as compared to minority.
shareholders or individual shareholders. It is important for corporate governance implication that public pension funds continued to devote an increasing amount of their assets to equity holdings. Public pension funds are the most activist on corporate governance matters and as they increase their presence in equity markets, they increase their clout. As against these facts, Indian Corporates are having less investment by the public pension funds owing to unclear policy guidelines.

4.5 EQUITY GOVERNANCE THROUGH DIVIDEND PAYMENT

The Indian Corporates' non-payment of dividend has attracted a lot of criticism from the shareholding community. There are corporates which have not paid a single dividend since inception. The proportion of non-dividend-paying corporates has steadily increased from less than 20% in 1961 to 40% in 1980-81. The following table indicates percentage of large and medium-sized Corporates not paying equity dividend during 1961-1981.

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Corporates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>18.8</td>
</tr>
<tr>
<td>1966</td>
<td>21.6</td>
</tr>
<tr>
<td>1971</td>
<td>26.9</td>
</tr>
<tr>
<td>1976</td>
<td>37.9</td>
</tr>
<tr>
<td>1980-81</td>
<td>40.0</td>
</tr>
</tbody>
</table>

Certain Corporates (18%) have not increased the dividend rate for a considerable period. Certain Corporates (9%) have also declined the dividend rate. The Corporates declaring increased rates of dividend accounted at 45%. The analyses from the secondary data of 200 companies in India reveals these hard facts on dividend rates as would be seen from the Table No 43.

Table No 43  Dividend Paying Trend during Five years (1991-96)

<table>
<thead>
<tr>
<th>Corporates</th>
<th>Constant</th>
<th>Increasing</th>
<th>Decreasing</th>
<th>Nil</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>36</td>
<td>91</td>
<td>18</td>
<td>55</td>
</tr>
<tr>
<td>(%)</td>
<td>18</td>
<td>45</td>
<td>9</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports of 200 companies in India for the Years 1991-1996.
Table No 4.4  Corporates with Varied Dividend Rate during Five years (1991-96)

<table>
<thead>
<tr>
<th>Dividend Rate in %</th>
<th>No of Corporates</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10</td>
<td>4</td>
</tr>
<tr>
<td>10-20</td>
<td>24</td>
</tr>
<tr>
<td>20-30</td>
<td>40</td>
</tr>
<tr>
<td>30-40</td>
<td>37</td>
</tr>
<tr>
<td>40-50</td>
<td>20</td>
</tr>
<tr>
<td>&gt;50</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports of 200 companies in India for the Years 1991-1996
This divergent practice of dividend payment only by a small number of corporates in India has demotivated the investor community. This has resulted in decline in number, size, and quantum of public issue of Corporates during the last five years. Since all other stakeholders are assured of their returns/value for the services rendered, the shareholders, being the risk capital providers, have not been able to earn any returns on their investment. The absence of statutory power of demanding dividend payment from the corporate under the governing legislature has made the shareholders' problem more acute in the present corporate system. In the study an analysis of response data on the matters of dividend reveals interesting feature, i.e., varied dividend rates by small, medium, and large Corporates.

The shareholders will get dividend on the recommendation of the board and approval in the AGM. In the event of liquidation of the corporate, the shareholders will get back their investment only after meeting statutory payments and outside creditors including lenders. Any deficit in the liquidation
process will be made good by the shareholders themselves. The shareholders are deemed as highly risky owners of the corporate.

The fair treatment to all stakeholders also includes a fair treatment to the shareholders in the form of giving them a reasonable return on their investment. The dividend payment consistently would fill the expectations gap especially in case of small or marginal shareholders. In Agency theory of dividend payments, the dividends are for equity what interest is for debt. By payment of dividend, the equity governance would be justified.

The problem of non-payment or fluctuating rates of dividend is directly linked to the corporate performance. The corporate sector in India witnessed the problem of securing better corporate performance. Weakness of boards and dominance of controlling interest of a corporate contributed to the less corporate performance. The survival of a healthy corporate sector ultimately depends on the healthy functioning of the boards. Coupled with this, the growing incidence of corporate sickness in India is well known and needs no elaboration. Roughly one out of every six listed corporates in India is a sick corporate.

All these factors have shaken the confidence level of the investors in the corporate system which affected further flow of investment in the forms of shares to the corporate sector. The areas of misgovernance in the form of non-payment of dividend, lack of proper performance, etc., must be free from the corporate functioning so as to build a long-lasting investment culture even by small investors.

4.6 ROLE OF THE SUPPLIERS

The suppliers are involved in supplying materials to the corporate entity. The corporate is required to meet their financial commitments on time as per contractual obligations. The suppliers are duty bound to supply good quality materials and conduct their business ethically with the corporate. The
price of materials must be competitive. Timely honoring the contractual obligations by both the parties will result in standing trusted relations. Any breach of contracts may result in claiming damages by either the party.

The stakeholders model underscored the significance of cordial relationship with the vendors / suppliers to ensure continued supply of materials to the corporate at competitive rates and to contribute for reduction in the transaction cost of the corporate. The supply chain management is highly professional in nature in the present day of zero inventory regimes wherein the corporate is interested to procure materials at the click of the mouse. The practice of awarding most preferred suppliers, felicitating star category suppliers in the presence of CEO, inviting the suppliers on the occasion of important events and sending frequent circulars on the developments of the corporate would go a long way in strengthening the bond of relationship with the most wanted stakeholder of the corporate, i.e., the suppliers of materials. These aspects are crucial to ensure good corporate governance towards the suppliers community.

4.7 ROLE OF THE LENDERS

The Lenders are basically financiers for the corporates project and further financial requirements of business. The banks and financial institutions normally lend money to the corporates project under an agreed terms and conditions with adequate security after carrying out the socio-economic analysis and due diligence tests on par with well laid norms of lending and credit policy announced by the Reserve Bank of India and the Ministry of Finance, Government of India. The corporate is required to ensure sufficient cash accruals to meet the financial repayments to the banks and financial institutions as per the schedule agreed upon.

Good governance in this regard requires a fair play not only by the corporate but also by banks and financial institutions. Charging abnormal finance charges from the corporate will result in resources crunch in corporate.
functioning and thereby leaving less resources to meet the expectations of other stakeholders viz. employees, government and the shareholders. The lenders normally designate and appoint one or two nominee directors on the board of the corporate under an agreed terms with a view to ensure supervision on the overall activities of the corporate. The lenders are supposed to brief the nominee directors to perform their role effectively so that the corporate and the lenders will be benefited.

4.8 ROLE OF THE EMPLOYEES

The employees form an integral part of corporate governance system. The material resources require human drivers so that optimum utilization of resources at the command of the corporate is possible. The employees are the important stakeholders of the corporate and their growth is directly related to the growth of the corporate. The cohesive and vibrant team of manpower would result in converting all material resources into economic resources and thereby resulting value addition in the corporate. Human resources with their qualifications, expertise, and intelligence will result in professionalism in management and thereby reducing bottlenecks of growth. Efficient human resources with proper strategy, motivation, and better working conditions would result in effective performance of the corporate.

The corporate is required to meet the expectations of the employees both financial and non-financial and to motivate the entire team towards the attainment of corporate goals. The employer and employee relations must be cordial and under mutual trust and partnership. Such relationship would go a long way in building a self-driven, vibrant, and forward-looking organization. The corporate is required to take adequate health and safety measures to protect invaluable human resources and comply with the required and applicable labour laws in letter and spirit. The industrial unrest should be avoided at all costs by the corporate.
4.9 ROLE OF THE CUSTOMERS

The Customers of the corporate are drivers of growth. The entire focus of the Corporates operations at all levels must be on customers orientation. In the changed mindset of customers (consumers) about good quality reasonably priced products and services, the corporate is in constant endeavor to improve customers' services in a required manner and to bridge expectation gap from the customers. In the Internet revolution and improved telecommunication facilities, the customers are well aware of the niceties of products and services available elsewhere. The television media has been bringing live demo of products and services which has improved the mind setting of the customers towards their tastes and preferences. Under this changed scenario, there is a constant pressure on the corporate to re define, re engineer, re launch and revise the price of various products and services ahead of all the competitors and to capture market share by scaled up business activity. Any laxity in this regard by the corporate would leave their products and services back seated. The application of good corporate governance has received urgent attention in meeting the expectations of the customers in a time bound, cost effective and with well placed logistics.

4.10 ROLE OF THE REGULATORS

The Regulators comprising of various governments, local authorities, statutory corporations are engaged in implementing various statutes and rules in right earnest with a view to ensure compliance by the corporate. The regulators while enforcing various statutes should not lose the sight of minimal governance by laws and encouraging voluntary based governance by the corporates. The regulators are involved in regulating the corporate under various statutes and collection of various taxes from the operations of such corporates. While it is the duty of the regulator to ensure good governance towards such corporates, the regulators should utilize revenue collected in form of taxes for the priority of the government projects and ultimate welfare.
of the people Any divergence of such taxes by the regulators will result in
demoralizing effect on the corporates

The regulators are required to announce and implement practical
workable logical rules and regulations and thereby to avoid litigations in
unnecessary interpretations by the judiciary The laws should be simple and
capable of timely compliance by the subjects The regulators should not
introduce retrograde and reactive laws which ultimately affect to growth of the
trade and industry Similarly the corporate is required to ensure proper
governance of all statutes with timely compliance and payment of statutory
dues as a responsible corporate The much debated corporate citizenship
comes into picture in regard to role of the corporate in discharging taxation
obligations under various statutes Thus good governance is the hallmark in
this regard The corporates defaulting on taxation front are non practicing
good governance or engaged unnecessary litigation blocking the legitimate
taxes of the regulators

4.11 ROLE OF THE SOCIETY

The Society or community at large is having considerable influence on
every organization The modern society is a society of organizations The
functioning of society needs a large variety of different organizations Every
major social task is discharged by an organization One of the important types
is the business corporation The society is having every right to protect its own
interest including the protection of valuable natural resources It is the
endeavor of the society to see that the corporates operations do not result in
environmental degradation or ecological imbalance and fast depletion of non
renewable resources The society is required to have a foresight and an
oversight on all the activities of the corporate with a view to ensure the
protection of interest of future generation The corporate must not indulge in
wealth maximization at the cost of social relevance It must protect invaluable
human race The extended role of corporate in discharging this social
responsibility in the present day circumstances is very well enshrined in the
The hazardous effect of pollution on the citizens of the Nation is in the nature of a gift given to the society by highly polluted industrial houses.

The beneficial effects of the shareholders oriented corporation on society thus rest on the argument that corporations serve consumers, workers and shareholders best when they focus exclusively on maximizing share price. A firm share price is the best measure of its sustainable profitability into the future. Thus as a measure of corporate performance, share price is an ideal device that encourages corporate managers to maximize share price thereby achieve a trifecta of benefiting consumers, workers, and shareholders simultaneously.

The social responsibility of business has assumed a renewed urgency by corporates. The society does not require undesirable business practices with faulty goods and services from the corporates. The sense of high ethical agenda with transparent and accountable dealings is required to strengthen good governance system by the corporates. The moral consciences of all the corporate leaders in following up of code of conduct would ensure adequate protection to the society at large. Since every resource is being drawn from the society, the corporate is duty bound to ensure good governance towards the society as a matured corporate citizen who is interested in not only creating economic wealth but also the society welfare.

The corporates' financial performance must be acceptable from the society point of view also. The financial ratios namely current ratio, acid test ratio, solvency ratio, debt equity ratio, return on assets, etc., points out good social responsibility of corporate business to the general public. The investing communities generally rely on such ratios before deciding the proposal of investments into the corporate. Any adverse ratios would act as demotivating factors for the investors to invest in corporate business.
Corporate failures not only dry up the resources of the society but also result in financial loss and unproductive investment from the point of view of the society as well as the corporate. Continued cash loss, fast deterioration of net worth and inability to meet current liabilities of the corporates are indicative of corporate failure. High leverage over trading liquidity ratio, deterioration in high capital gearing ratio and high debt equity ratio would indicate trouble route of corporate warranting urgent action on the part of the board to take corrective and long term steps. Therefore it is inevitable to ensure these financial ratios as favorable in the larger interest of the corporation as well as the investing community by achieving commendable performance.

The secondary data of top 50 loss making Indian Corporates during the year 2000-01 reveals shocking news to the society as shown in Table No 4.6 & 4.7. A sum of Rs 16149.6 crores was the net loss representing 8.89% on total value of assets and 24.57% on sales. As a result of net loss, these Indian Corporates were unable to declare dividend to the shareholders. The assets have become unproductive to the extent of net loss incurred in the perceptions of the society. The comparison of top 50 Corporates loss position with top 500 Corporates in India during the same year reveals yet another shocking state of affairs to the society. The loss making Corporates' net loss as a percentage of total assets of 500 companies works out to 1.4% and as a percentage on total sales works out to 1.9%. The overall performance of the corporate sector has also received setback owing to the net loss of 50 Corporates. The expectation of the society from the corporate sector is that the investment made must ensure higher productivity with fair returns to the stakeholders. This is the essence of good corporate governance from the point of view of society.
Table No 4.5 Top 50 Loss making Indian Corporates during the Year 2000-01
(Rs in Crores)

<table>
<thead>
<tr>
<th>NOC</th>
<th>Total Assets</th>
<th>Total Sales</th>
<th>Net Loss</th>
<th>% of Net Loss on Assets</th>
<th>% of Net Loss on sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>181,611.80</td>
<td>657,214</td>
<td>161,496</td>
<td>8.89</td>
<td>2.457</td>
</tr>
</tbody>
</table>

Source: Based on Business World Listed Corporates BW Dated 7th October 2001

Table No 4.6 Top 50 Corporates Loss Position compared with Top 500 Corporates (Rs in Crores)

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>Total Assets of 500 Corporates</th>
<th>Total Sales of 500 Corporates</th>
<th>Total N P of 500 Corporates</th>
<th>Net Loss of 50 Corporates</th>
<th>% of N Loss on Total Assets of 500 Co</th>
<th>% of N Loss on Total Sales of 500 Co</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-3-2001</td>
<td>11,486,11</td>
<td>8,486,11</td>
<td>32,223</td>
<td>1,614,96</td>
<td>1.40</td>
<td>1.90</td>
</tr>
</tbody>
</table>

Source: Based on Business World Listed Corporates BW Dated 7th October 2001

In the list of world’s largest corporations (500 Fortune Corporates) 50 corporations have incurred net loss for the year 2001. The quantum of net loss of 50 Corporates is negligible as compared to the voluminous Revenues of 500 Corporates for the year 2001.

Corporate Governance is lying emphasizes on relationship among various stakeholders to ensure balancing of interests in a corporate entity. The first constituent of good corporate governance is ethics. Ethics is a behavior. Ethics is to ensure fairness to all concerned stakeholders and it is value based in a corporate. It has been observed in business that those corporates which develop reputation for the ethical treatment of suppliers, clients, and employees are able to build trust relations which support profitable investment and mutually beneficial exchanges in the long run. The essence of corporate governance is to ensure that the multiple stakeholders are having good relationship with the corporate. It emphasis a system of recognizing their expectations as an ongoing process and to develop long-lasting image about the corporates products/services. The principle of
mutuality is the cornerstone in strengthening the stakeholders relationship with the corporate. The stakeholders model demands an equitable and more socially efficient function from an organization in a wider connotation than mere confining to the maximization of shareholders' wealth. Any imbalance in assuring a fair return to all the stakeholders by the corporate would create a vacuum and strained relationship of stakeholders. The expectations gap arising from such imbalance is required to be bridged by constant monitoring of stakeholders' expectations by the board or through a well-established system in the corporate.

4.12 STAKEHOLDERS' CONFLICT

The conflict between the stakeholders cannot be ruled out in the corporate. The reasons for stakeholders' conflict may be on account of different approach towards strategy, its implementation process, lack of professional managers, absence of financial independence, neglect by dominant shareholders, social security aspects, lack of response to the grievances, governance culture variations, shifting of priorities and such other related matters. For instance, the shareholders might conflict with the board owing to non-declaration of dividend, the Financial Institution might conflict with the shareholders for delayed payment of interest and loan installments, the work force might conflict with the management for non-payment of higher bonus and improvement in working conditions. Similarly, the customers might conflict with the management for poor quality goods and services and exorbitant prices, the regulators might conflict with the board for non-payment of legitimate taxes and breach of laws. The board is duty bound to pursue and take immediate corrective actions in resolving such conflicts. The early conflict resolution is the foremost step in strengthening the relationship of stakeholders with the corporate and thereby to improve corporate governance.

The board is accountable to the shareholders. Their responsibility towards other stakeholders is very much underlined as trustees of the corporate. The board is under an obligation to create a workable system in the
corporate. Such system is required to be embedded in a particular value-framework to serve its intended purpose. There is ample evidence in literature to suggest that a change in relationships and systems cannot be brought about unless there is a change in the basic attitudes. The corporate governance system should subscribe to this view to make the system in a Value framework encompassing all the stakeholders' best interests.

4.13 STAKEHOLDERS' CONFIDENCE INDEX (SCI)

Here a new conceptual framework is suggested in the form of Stakeholders Confidence Index (SCI) to monitor the level of confidence of the stakeholders in the corporate functioning at regular intervals of time. Continued confidence of the stakeholders in the corporate would build long range relationship and strengthen the bonds of trust. Investors' confidence in the functioning of the corporate is crucial to attract capital resources for funding corporate activities. It is the endeavour of the corporate to ensure that the investors' confidence level will always be highest by taking timely measures to respond to the investors and good performance resulting a fair return on their investment. The expectations from the corporate by every stakeholder are different. The shareholders community will expect consistent dividend payment and bonus shares. The employees will expect growth in salary and welfare measures. The suppliers of goods will expect timely payment and fair treatment by the corporate. The Regulators will require timely compliance with law and payment of taxes. The Lenders will be happy for timely repayment of loans and good performance by the Corporates. The Customer is interested in quality products and services at reasonable price. The society at large would be interested in friendly environment and useful projects to the community.

The stakeholders' confidence level can be measured on these parameters at regular intervals of time either by the designated agency of the board or a committee set up to look after the welfare of the stakeholders. On getting feedback from such an assessment the corporate is required to
improvise the level of confidence by taking timely corrective actions on
various expectations of all the stakeholders. Timely correction by the
corporate not only sets right the house in order but also build up a strong
bond of stakeholders' relationship with the corporate. The attachment of the
stakeholders with the corporate as responsible players in the corporate
society would be high on the improving the SCI. Further SCI can also be
applied as one of the non-financial measures to assess the corporate
performance with regard to various stakeholders. The SCI can also be an
effective tool to measure the satisfaction level of various stakeholders from
the corporate functioning. The SCI has been applied to the data of sample
companies by using appropriate score system in subsequent parts of this
thesis.

4.14 SHAREHOLDERS' RIGHTS & ACTIVISM

In the light of corporate governance, the rights of shareholders are
required to be re-examined. The shareholders are having certain rights under
the Companies Act 1956 to question on the report of the board of directors, auarit
reports, corporate performance increase or decrease in capital, appointment
of directors, fixation of terms of appointment of managing directors, mergers
and acquisition decisions, etc. A well-exercised power of shareholders in the
general meetings of the corporate would have the effect of demanding greater
disclosure of information by the board of management. The shareholders'
participation in various aspects of the corporation's performance, functioning of the
board, working of the management team would result in ensuring checks and
balances in the corporate governance system.

In the present corporate scenario, rejection of audited accounts by the
shareholders is hardly finding place through the AGM process. By and large
the audited accounts and the report of management as submitted to the AGM
for the consideration of the shareholders are generally accepted without much
debate on various issues due to several reasons. The presence of marginal
shareholders in the corporate with dispersed shareholding pattern is the main
reason for such a passive acceptance of audited accounts and the report of board a yearly basis. The marginal shareholders are not in a position to exert powerful influence on the board through their rights of questioning the audited accounts owing to lack of their awareness on the interpretation of financial information, expenses of attending the general meetings, non-availability of infrastructure to correlate or cross verify the accuracy of the financial information, and higher stake of dominant or promoters category shareholders in the corporates capital. Corporate democracy is in place only when the shareholders are exercising their rights in good earnest in the best interests of the corporate and shareholders. The rights of ownership and establishing clear identity by the shareholders as the ultimate owners of the corporate in all their endeavors would only pave a way for shareholders activism in the corporate.

The shareholders right of demanding good performance from the board of directors is required in order to ensure an equitable treatment to all the stakeholders. The data analysis indicated that many corporates have not bothered to give a consistent performance and dividend distribution. The shareholders must be vested with powers to dismiss non-performing board for a long period of time. The present Companies Act 1956 is not having an express right with the shareholders to dismiss the non-performing board of directors. The shareholders must also have the right of demanding dividend from the corporate since giving a fair return consistently on the investment made by the shareholders would only improve their confidence in the corporate functioning. The present Companies Act 1956 is silent on this aspect also. Considering the fact of deterioration of investors confidence in the corporate performance and also failure of regulatory authority namely SEBI in ensuring proper investors protection, the rights to a shareholder in demanding dividend from the corporate is very much fitting in the rationale and it would support the cause of strengthening the investors protection in corporate sector.
The very basic fabric of corporate entity—separation of ownership from management—is scattered with win lose situation between the other stakeholders of the corporate and the shareholders. When other stakeholders (customers, creditors, lenders, employees, regulators, and society) are assured of their respective dues/claims, denial of the legitimate demand of the shareholders for dividend on their investment will result in imbalance in the stakeholders' interest. This type of imbalance is definitely creating a vacuum in achieving fair treatment to the shareholders since the shareholders are not having such rights in demanding dividend from the corporate. Therefore, other stakeholders and corporate are having a win win situation in enforcing their rights. The corporate and shareholders are having win lose situation in regard to non-payment of dividend by the corporate owing to poor performance or other reasons.

In order to set right this paradoxical situation, there is an urgent requirement to redefine the rights and role of the shareholders in the corporate under the Companies Act of 1956.

4 15 STAKEHOLDERS' EXPECTATIONS

The stakeholders of a corporate are having different expectations considering their interests and power in the organization—within and outside. The influence of few stakeholders may vary from corporate to corporate depending upon the changing economic and policy situation. The influence of power of the stakeholders is directly linked with the expectations of the stakeholders from the corporates. For instance, the regulators may influence the corporate by using their exclusive powers vested under legislature. The workers may influence by their power of abrupt strike on various grounds and result the corporates' functioning to a grinding halt. The society may influence their undefined power in case the corporate activities result in hazardous effects of pollution on the mankind and the nature. The influence of external stakeholders on the corporate must be analyzed by
the board and strive to bridge the expectation gaps. The expectation
gaps of the internal stakeholders must be analyzed in right earnest and
early fulfillment of the same must be undertaken. The board and
executive management as an ongoing process and in the best interest of
the corporate must protect the interest of the stakeholders. Equally the
governance system in the corporate sector needs to be fine tuned to
ensure higher level of protection to the ultimate owners of the corporate
i.e., shareholders.
End Notes and References

a) Multiple stakeholders would mean the Shareholders Suppliers Lenders Employees Customers Regulators and the Society

b) Stakeholders Confidence Index (SCI) can also be applied as one of the non financial measures to assess the corporate performance. With this tool the stakeholders confidence level can be qualitatively measured and the outcome could be combined with the financial measures of corporate performance


10 Source Figures upto 1976 relate to Stock Exchange related Corporates and are from Gupta L C Rates of Return on Equities the Indian Experience (Delhi 1981)


13 Gupta L C (1981) Rates of Return on Equities The Indian Experience Oxford University Press New Delhi p 70

14 Chaturvedi A (1985) Managing The Divide – Concerns in Industrial Relations The Ties Research Foundation Pune p 139

p 230