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Research Article

THE INCREASING ROLE OF CORPORATE GOVERNANCE IN MANAGING THE INTEREST AND BENEFIT OF STAKEHOLDERS OF AN ORGANIZATION

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ABSTRACT

Purpose-Corporate governance is the set of best practices and moral conduct that brings improvement in stakeholder satisfaction. The current research paper highlights the increasing role of corporate governance in managing the interest and benefit of stakeholders of an organization. **Methodology-**The use of secondary sources of qualitative research supports in explaining conclusions on the research topic through a reference to previous articles and books. The literature from the year 2011-2015 is considered in conducting the research activity. **Findings-**The proper application of a transparent method of managing stakeholders increase the level of satisfaction and improve the overall performance of the organization. Various rights need to be provided by the company to the stakeholders so that wealth creation and soundness in an organization can be maximized. **Conclusion-**The application of principles of corporate governance increases engagement and long term relations of the stakeholders. It avoids mismanagement and improves the method of capital use and supports in minimizing the level of risk in the organization through continuous involvement in creative practices.

INTRODUCTION

Rationale: Corporate governance is the code of conduct and procedure that supports in governing the direction, control and management of an organization. The main motive of this is to ensure transparency in the organization and increased enjoyment of the stakeholders that are an integral part of the organization commitment and success. The stakeholders provide support to the organization in the form of availability of labours, resources and technology that are the main reason behind the growth and development of an organization (Claessens, Stijn, 2013). The importance of assuring corporate governance in an organization cannot be neglected as it results in the satisfaction of stakeholders.

Research questions

Why corporate governance is highly practised in organizations?

- What are the elements of corporate governance?
- Who are the stakeholders involved in the practice of corporate governance?
- What is the major benefit of corporate governance observed in an organization?
- What are the challenges faced due to non practice of corporate governance?

Objectives of the Study

- To determine the true meaning of corporate governance
- To determine the 4P's involved in corporate governance.
- To list out the major benefits of corporate governance on the stakeholders.
- To study the involvement of stakeholders in managing corporate governance practices.

RESEARCH METHODOLOGY

There are various methods of research activity undertaken by the researcher to gather the necessary information so that appropriate conclusion can be drawn. The primary research activity includes a self-collection of data through first-hand sources and direct communication with the respondents. The secondary method of research supports in analysing the pre-written information of the previous authors so that proper analysis supports in drawing new conclusions. The research articles, journals and books are referred by the researcher in drawing relevant inferences.

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THE STAKEHOLDERS OF AN ORGANIZATION AND MEANING OF CORPORATE GOVERNANCE

Corporate governance: Corporate governance refers to the list of rules that supports in serving the interests of the stakeholders through efficient management and delegation of roles and authorities (Tricker, 2015). There are distinct methods of ensuring strategies related to corporate governance so that the purpose and objectives can be achieved. As per Tricker etal., various rules of corporate responsibility include fairness, integrity, honesty, social responsibility and independence. It brings operational improvement and internal control through proper channels of communication (Denis, 2003). It supports in mitigating and managing corporate risk and complying with all the rules and regulations. The application of principles of corporate governance ensures accountability, credibility and transparency.

Stakeholders: The stakeholders of an organization include employees, suppliers, creditors, government and the customers. They play an important role in ensuring continuous participation and involvement to bring improvement in organizational growth and productivity (Jo, 2011). Jo andMaretno also concluded that the stakeholders in an organization needs to be informed with proper agreements or by the act of law and hence managing them, and their expectations with the proper application of law play a vital role in ensuring commitment and loyalty. The stakeholders are an integral part of an organization that combines their efforts to maximize the level of organizational outputs (Ackermann, 2011).

The external stakeholders of an organization include customers, suppliers, investors and trade unions. There is a high degree of correlation between the external and internal stakeholders that coordinate their efforts towards successful operations of the organization. It is for the benefit of the stakeholders that the resources are organized and used in an effective manner (Pirson, 2011). They have a high level of interest in the organization so that outcomes are directed towards the effectiveness of the stakeholders.

IMPORTANCE OF HAVING CORPORATE GOVERNANCE IN AN ORGANIZATION

Stakeholders satisfaction: Corporate governance supports ensuring stakeholder's satisfaction through increased transparency and communication efficiency. As per Cretu, increased accountability with the employees at various positions ensures improved performance and returns to the investors. In addition to this, the application of various laws and legislation also enhances the interest of the stakeholders as their rights are protected (Cretu, 2012).

Increased transparency: The need for transparency in the disclosure and communication of financial information calls for the need for corporate governance that involves the disclosure of financial data and information. The financial information of an organization is vital elements that attract and influences the decisions of the stakeholders regarding making probable investments in the company. A misleading and improper record that is communicated to the stakeholders leads to conflicts and confusions among the investors and reduces the amount of trust and loyalty.

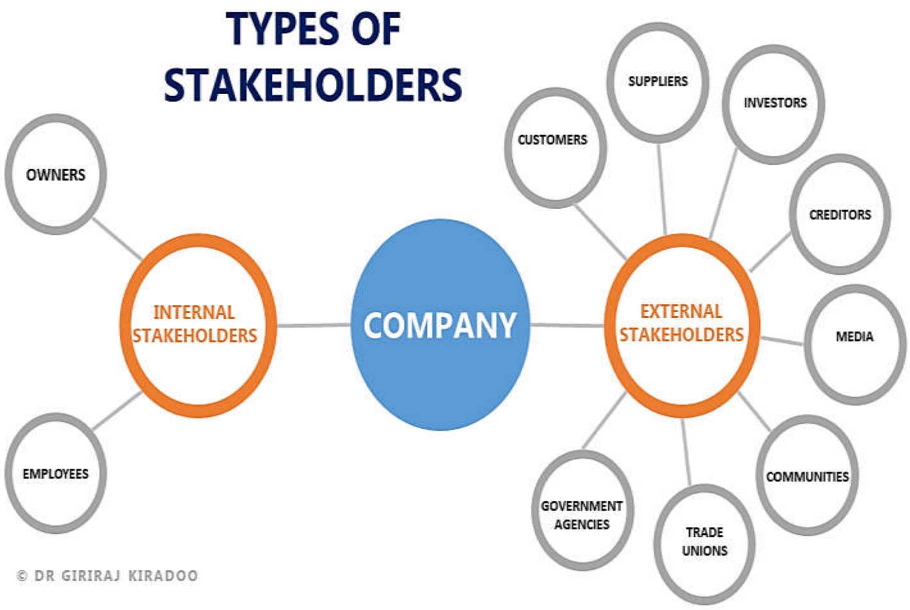

Figure 1. Types of stakeholders

General stakeholders of an organization: The stakeholders of an organization include internal and external stakeholders that support management and performance in an organization. The internal stakeholders are categorized in the form of owners and the employees.

Minimized operational risk: An organization faces various risks such as operational, financial and environmental, which leads to threats of effective performance. Okhmatovskiy and Robert concluded that the implementation of proper practices of corporate governance

Figure 2. Corporate governance framework

supports in enhancing the mitigation of risks through the combined efforts of the stakeholders. It allows proper decision making and management so that risk is accepted and plans are devised for its mitigation. A proper layout of increased employee commitment and engagement supports in maximizing the opportunities and minimizing the impact and probabilities of threats (Okhmatovskiy, 2012).

Increases sustainability: It is the main aim of an organization to sustain for a long period while serving the best quality to the customers to meet their needs and expectations. As per Krechovská et al. improved governance strategies and standards in an organization develop effective values and morals that provide long term organizational benefit. Corporate sustainability and its overall market presence are enhanced through the practices of implementing effective laws and regulations (Krechovská, 2014).

The role of 4p's involved in the effective management of corporate governance in an organization: The 4P's of the corporate governance includes people, purpose, process and performance. These pillars of governance support in improving the process of performance and operations. The organizations have a common purpose that is achieved through improved performance and with the maximum efforts of the people. According to Mostovicz et al., the process of engaging stakeholders through corporate governance assures the achievement of mission and vision of the organization. It develops a fair and balanced method of managing activities in an organization so that business purpose is achieved. The people that are the stakeholders are the vital elements of an organization towards whom all the activities are directed and a sustainable process of adopting. These 4P's are the pillars of corporate governance for and on which it works (Mostovicz, 2011).

RESULTS

Corporate governance is increasing in managing the stakeholder's benefits and interest in the organization. The rules and regulations followed by the organization help to attract the stakeholders by providing shares in the market. Corporate governance is the process which involves guiding and controlling the organization by implementing various rules and regulations in the business. The organization growth record is maintained due to corporate governance. This focus on the interest of stakeholders such as customers, management, community, shareholders, etc. the performance measurement and disclosure of corporate are controlled internally. The principles and structure of the government determine the responsibilities and rights of multiple participants in the organization (Awotundun, 2011). The organization affairs involve with decision making procedure and rules are formed with the help of managers, board of directors, creditors, auditors, shareholders, stakeholders and regulators.

The governance mechanism impacts the stakeholders and agents by supervising the policies, practices, decision and actions of the organization (Stănculescu, 2015). The interest of the stakeholder's increases due to equal treatment and equal rights provided to them in the particular organization owned share. The interest of stakeholders is effective due to corporate governance as they identify the contractual, social, legal, and market obligations for stakeholders. The ethical directions help the stakeholders against the organization share in the market. Corporate governance leads to the satisfaction of stakeholders in the organization (Kocmanová, 2011). The corporate governance leads to the development in the transparency in the rules and regulations of the organization. The minimization of risk against the operations of the organization is considered. The corporate governance increased the sustainability of the stakeholder's ion the organization. Effective management involves various 4ps in the organization by implementing corporate governance (Vasile, Emilia, 2013). The people, process, purpose, performance is considered for increasing the interest of the stakeholders in the organization. The organization performance increases due to the involvement of corporate governance, and that benefits the stakeholders in the market. There is support to the organization due to stakeholder's involvement in the organization which develops the organization growth. The increase in the output of the organization depends on the involvement of the stakeholders in the firm. The corporate governance rules implementation manages the stakeholder's interest, and roles and responsibilities are managed in the organization for effectiveness' of the business. Hence, corporate governance is important in all the organization as this will increase the stakeholders as well as their interest which will be beneficial for the organization (Ferrero-Ferrero, 2015). The research paper has identified that the corporate governance has an important role in managing the interest of stakeholders. It provides the outline on pillars of corporate governance and the impact on stakeholders. There is a major impact of this practice on the organization's productivity and profitability through increased customer interest and loyalty.

Conclusion

The role of corporate governance has increased in the present day organizational scenario. The requirement of a fairly traded and disciplined mechanism of organizational performance plays an important role in ensuring increased stakeholders interest and satisfaction. Various issues arise due to non-implementation of corporate governance standards such as confusion, conflicts and improper distribution of roles and responsibilities.

The stakeholders of an organization include the internal and external members such as employees, competitors, the organization itself, government, suppliers and others that are highly connected to the management and functioning of an organization.

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