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Corporate Governance – The Importance of Communication and Culture

B. Nalina[1]* and N. Panchanatham[2]

[1]Vels University, Chennai - 600117, Tamil Nadu, India; familyganapathi@gmail.com
[2]Department of Business Administration, Annamalai University, Chidambaram - 608002, Tamil Nadu, India; panchanatham@gmail.com

Abstract

Objectives: The purposefulness of the paper is to examine the significance of independence in corporate governance, issues and challenges that independent directors have to face and the importance of culture and communication. **Analysis and Findings:** The paper investigates how a firm's governance maps between corporate governance and independent directors. Corporate Governance is a fundamental significance to an establishment as it undoubtedly augments a company's image in the public. It is about establishing values and principles into every aspect of business. It acts as a pillar for the reliability and stability of any establishment. When performed successfully, it can prevent corporate humiliations, counterfeit, civil and criminal liabilities of the company. The importance of independence in corporate governance is vital and an essential component for efficiency. However, corporate governance structures differ from country to country and thus largely influenced by culture. Communication between management, independent directors, stakeholders, shareholders and customers who do not share a common language or culture can always become a concern. Further independent directors are perceived as the key boundary between management, then, they are understood as the marginal shareholders or stakeholders**.** Needless to state, to improve corporate governance independent directors with excellent business tactics, dedication, cultural tolerance and positive attitude are essential since this helps remarkably in the growth of a company. However, to achieve an effective role in protecting the company's objective in terms of sustainable grow this a remarkable challenge. This is because of strong review from stakeholders, substantial demands imposed and an increase in overall difficulty of the business setting and cultural exchanges. The high competency of independent directors and understanding the cultural aspects of the country by management would make corporate governance a great success. If an implementation of effective corporate governance joined with communication and diversity awareness, the revenue and market share improves along with enhancing image of the business.

Keywords: Challenges, Corporate Culture Communication Barriers, Corporate Governance, Independent Directors

1. The Relevance of Corporate Governance

The International Chamber of Commerce describes Corporate Governance as "the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations".[1] Furthermore, the definition by the Organization for Economic Co-operation and Development (OECD) highlights the importance of clear accountabilities and rules in setting and monitoring decisions[2,3] by stating, "corporate governance is the system by which business corporations are directed and controlled".[4,5] The spreading of privileges and responsibilities among diverse members in the corporation such as the panel, directors, bondholders and other stakeholders, and spells out the instructions and actions for making judgments on corporate matters denoted by the corporate governance structure. By doing this, it stipulates the arrangement through which the objectives of a corporation are set and the processes of managing those aims and examiningim-

*Author for correspondence

plementation.[6,7] Recognized by OECD Ministers in 1999, the OECD Principles of Corporate Governance (Figure 1) were become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide[8], that empower to improve the structure of corporate governance across the world.[9]

- to attain the highest supportable economic development and employment and a rising standard of living in member countries, while preserving financial steadiness, and thus to provide to the development of the world economy;
- to give a complete economic growth in member as well as non-member countries in the course of economic development; and
- to supply to the growth of world commerce on a multidimensional, non-discriminatory basis in agreement with international obligations.

Source: Review of the OECD principles of Corporate Governance, 2004

Figure 1. Principles of Corporate Governance.

Private companies perform an essential role in the advancement of a country's economy. After reviewing various member and non-member countries to gauge their corporate governance techniques, International bodies like OECD deliver propositions for establishments, stakeholders and other who perform vital roles in refining corporate governance schemes.[10] The attitudes established by OECD are crucial for the development of corporate authoritymethods.[11]

To complete and rising sections of the population, which varies gradually on secluded segment institutions to accomplish private investments and safe retirement profits, good corporate governance is essential.[12] It strengthens effective and efficient decision-making in a well-administered company based on clear communication and understanding of roles and responsibilities. Above all, it creates healthy performance, non-risky, better financial and information management systems.[13] Companies with good corporate governance have the capacity to maintain high quality facilities and to deliver perfection. However, effective corporate governance is based on transparency, inclusivity, clarity, loyalty and accountability, which boost trust and loyalty towards local engagement.[14]

2. The key functions of Independent Directors

Neutrality can be rather influenced by personages and it is an important component of professional behaviour when it conveys to work of independent directors.[15] It is a skill to 'stay away' from inappropriate effects and to be free of managerial exclusion, to be able to make the right decision on a given matter.[16]The concept of independent directors started to drive firms towards educating the idea of corporate governance in their management. The idea of independent directors in institutions is modest and thus, independent directors are to be independent from controlling and act as directors of stakeholders, which also indicate that they are obliged to be fully aware and demand the management of organizations on importantmatters.[4]On the one hand, independent directors are seen as the crucial interface between management; on the other, they are seen as the minority shareholders or stakeholders**.** Needless to say, to advance corporate governance, independent directors with outstanding business strategies, devotion, cultural tolerance and positive attitude are indispensable since this aids amazingly in the growth of a company.[17] Above all, they should be unbiased, balancing conflicting interests and protecting stakeholders, shareholders and whistleblowers' interests. In addition, they should be in a position to bring expertise in the board composition and infuse new ideas and develop a system in the board culture.[18]The competencies that independent directors ought to possess for the benefit of themselves as and for organizational growth are given in Figure 2.

- ❖ Organizational knowledge
- ❖ Objective and thoughtful
- ❖ Integrity and transparency
- ❖ Sensitivity to diversity
- ❖ Learning and knowledge sharing
- ❖ Client orientation

- ❖ Takes responsibility for performance
- ❖ Quality orientation
- ❖ Collaboration
- ❖ Managerial skills
- ❖ Maintain credibility and trust
- ❖ Communication skills

Sources: www.ilo.org;http://rua.ua.es/dspace/bitstream/10045/9171/3/corporate_Governance_and_organi.._Ethic_officer.pdf

Figure 2. Competencies of Independent Directors.

The importance of independence in corporate governance is vital as it is an essential component of efficiency for the growth of a company. The crucial drive of assigning independent directors is to accurately safeguard the interests of the shareholders on the Board of Directors.[19] This purpose is achieved in different ways but perhaps the most important quality is to provide an impartial, professional opinion on the decisions that is made by the Board. This means that for decision-making, independent directors must require individuality and impartiality.

3. Issues and Challenges

Due to strong investigation from stakeholders, greater efforts forced by regulatory requirement are inevitable. Additionally, it has become a real challenge for independent directors to complete a role to safeguard the company's objective because of a growth in overall complexity of the business environment and cultural boundaries.[20]

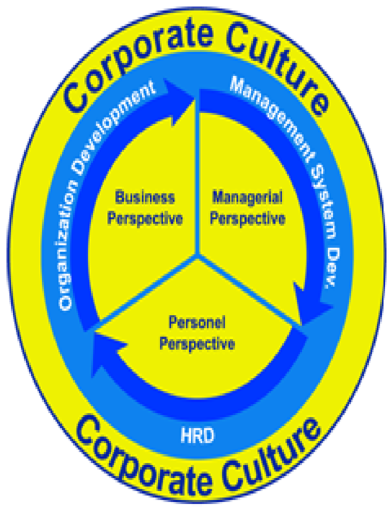
It may be not possible to stop in a place to prevent counter feit at the highest level by Independent Directors, however, with a great level of assurance and due-perfectionism, they may be well placed to recognize anything that it is not located, as it should be.[21] The independent directors who are hypothetical to bring impartiality to the tasks of the panel and progress its success depending on the corporate governance structure. However, playing an effective role in seclusion becomes difficult despite the guarantee to ethical practices. Independent Directors cannot end an assessment that is damaging to the members independently, but if they act jointly, then they can turn carefully before appearing at any such judgment.[16]

4. Corporate Culture

4.1 Culture, Communication Barriers and Business

Cultural differences can explain the level of corporate governance to some extent.[22] Corporate culture has the extensive morals, principles and thoughts that characterize a company and guides its practices. For any business, it is the groundwork. It commands how workers treat clients, and one another, and it shapes the appearance and product status that management aspires.[23]

Today the business environment has become multidimensional and globalized, products have become knowledge-based and the workforce has become culturally varied.[24]Cross-cultural communication plays a main part in the achievement or breakdown of companies with grits that are not captive to national limits. Nevertheless, this has become precarious to the monetary accomplishment of establishments with international goals. [25] Misinterpretations embedded in cultural deviations presents the most hindrance to constructive cross-border business. A prerequisite for agreeable and constructive cross-border relationships that transcend cultural disparities has placed new difficulties on establishments and their workforces.[26]



Source: http://ktalentapsikologiui.wordpress.com/deferensiasi /
Figure 3. Corporate Culture.

While carrying out businesses in a different country, it is absolute necessary to take cultural features of a country into consideration. Corporate governance structure differs from country to country, thus it is largely influenced by culture. Culture influences corporate governance across countries and it impacts shareholders' orientation.[27] Depending on predominant culture, companies react to global market burdens differently. As a prerequisite, a company's internal culture is a must to be expressed in its vision statement. A company's physical environment, human resources practices and the staff itself are the elements of corporate culture[28] (Figure 3). The degree of emphasis placed on various defining elements such as hierarchy, process, innovation, collaboration, competition, community involvement and social engagement reflects the corporate culture. In the existing global environment, corporate culture values transparency, uniformity and clear interaction by its independent directors, that could lead towards more stability and for better public relations.

5. Conclusion

Corporate governance acts as a sustenance for the consistency and strength of any company.[29]The acceptance of suitable corporate governance practices is a balancing component in development a culture of ethics within the enterprise.[30] There is a requirement that a fresh existence in which the right products and facilities must also be related with the essential cultural tolerant and communication abilities in order for enterprises to flourish in marketplaces absent from home. Communication between management, independent directors, stakeholders, shareholders and customers who do not share a common language or culture can always be a challenge.

Also for the effective and efficient management of a company, it would be more appropriate if the independent directors come from various settings such as law, personnel, finance and other to understand the problems well. Also, while carrying out businesses in a different country, the national and cultural aspects have to be taken into account for a smooth and rational flow of activities. Without any second thought, the high caliber of independent directors and understanding the cultural aspects of the country by management would make corporate governance a great success in the long run. There is no uncertainty that if an execution of effective corporate governance coupled with cultural awareness and cross-border communication are in place at the corporate level, then the revenue and market share would improve along with enhancing the image of the company.

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