Chapter 10
Corporate Governance Mechanisms on the Internal Relations Between Managers and Subordinates

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ABSTRACT

The concept of governance is as old as human civilization. However, recently the usage of this term has increased multifarious. A broader concept of corporate governance involves a set of relationships amongst the organization's stakeholders. A stakeholder is any person, organization, social group, or society at large that has a stake in the business. Recognizing the importance of corporate governance, most of the countries in the world have developed their own corporate governance mechanism known as corporate governance models. The mechanism of corporate governance depends upon various indigenous factors such as legal framework, regulatory framework, the pattern of shareholding, breadth, and depth of financial markets.

CONCEPT OF CORPORATE GOVERNANCE

The Organization for Economic Cooperation and Development defines corporate governance as (OECD 1999, cited in Clarke, 2010), the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, as the board of directors, managers, shareholders, and other

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stakeholders, explaining the rules and procedures for corporate decision-making, and provides the structure and foundation of the establishment of objectives, the means to achieve and ways to monitor their implementation.

According to Freeman (1984), stakeholders are individuals or groups who can affect or be affected by the purposes and business success, however, several scholars have suggested that this definition is too broad because in the final analysis all social players are directly or indirectly affected by the actions of the company. What has given rise to different classifications of stakeholders, has suggested that they are primary and secondary, according to the degree of impact on the organization in terms of achieving its mission and objectives of the company (Clarkson, 1995). Others have suggested that the stakeholders are all parts that are positively or negatively affected by the operations of the company those involve risks and therefore gain or lose by the results of corporate activities (The Clarkson Centre for Business Ethics School Joseph Rotman Management, University of Toronto, 1999, in Principles of Stakeholder Management, 2002).

In literature, the concept of corporate governance has been an approach in various contexts. The UK's Cadbury Committee on corporate governance as "(It is) the system by which companies are directed and controlled." In 2004, the definition from Organization for Economic Cooperation and Development (OECD) gives us an insight into the philosophy of corporate governance. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004).

The World Bank (1992) defined Governance as: "Governance is a method through which power is exercised in the management of a country's political, economic, and social resources for development." The Asian Development Bank, in 1995, is defined as Governance is the manner in which power is exercised in the management of a country's social and economic resources for development. UNDP defined it as Governance is the exercise of economic, political, and administrative authority to manage a country's affairs at all levels. It comprises the mechanisms, processes, and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences.

The comprehensive definition of Corporate Governance is presented by Sir Adrian Cadbury, which states as Corporate Governance is defined as holding the balance between economic and social goals and also between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of the resources. The aim is to align as nearly as possible the interest of individuals, corporations, and society.