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# CORPORATE GOVERNANCE-ROLE OF E-COMMERCE

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**ABSTRACT**

Before delving further on the subject, it is important to define the concept of corporate governance. In a narrow sense, corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. There have been several major corporate governance initiatives launched in India since the mid-1990s. It is observed that the scale and scope of economic reform and development in India over the past 20 years has been impressive. Even today, some considerable time after the so called 'dot com/Interne revolution', electronic commerce (e-commerce) remains a relatively new, emerging and constantly changing area. Electronic commerce is the process of conducting commercial transactions electronically over the Internet. E-commerce and e-business are not solely the Internet, website companies. It is about a new business concept that incorporates all previous business management and economic concepts. In 1996, Forrester Research Institute (www.forrester.com) predicted that B2C would be a $6.6 billion business in 2000, up from $518 million in 1996. For developing countries like India, e-commerce offers considerable opportunity. Ecommerce in India is still in nascent stage, but even the most-pessimistic projections indicate a boom. The drivers of e-commerce were identified and summarised in barriers to the growth and development of e-commerce. It is a new generation technology, a new method of doing business with new generation technology. Still, there are many drawbacks which fail to benefit the users of technology to a great extent of e-commerce.

Key words: Corporate .Governance, E-commerce, shareholders,

## Introduction

Before delving further on the subject, it is important to define the concept of corporate governance. The vast amount of literature available on the subject ensures that there exist innumerable definitions of corporate governance. To get a fair view on the subject it would be prudent to give a narrow as well as a broad definition of corporate governance.

In a narrow sense, corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well a monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders.

## Corporate Governance: History in India

There have been several major corporate governance initiatives launched in India since the mid-1990s. The first was by the Confederation of Indian Industry (CII), India's large industry and business association, which came up with the first voluntary code of corporate governance in 1998. The second was by the SEBI, now enshrined as Clause 49 of the listing agreement. The third was the Naresh Chandra Committee, which submitted its report in 2002. The fourth was again by SEBI — the Narayana Murthy Committee, which also submitted its report in 2002. Based on some of the recommendation of this committee, SEBI revised Clause 49 of the listing agreement in August 2003.

## Recent Developments in Corporate Governance

It is observed that the scale and scope of economic reform and development in India over the past 20 years has been impressive. The country has opened up large parts of its economy and capital markets, and in the process has produced many highly regarded companies in sectors such as information technology, banking, autos, steel and textile manufacturing. These companies are now making their presence felt outside India through global mergers and acquisitions.

## What is electronic commerce?

Even today, some considerable time after the so called 'dot com/Interne revolution', electronic commerce (e-commerce) remains a relatively new, emerging and constantly changing area of business management and information technology. There has been and continues to be much publicity and discussion about e-commerce. This papers aims to consolidate the major themes that have arisen from the new area of electronic commerce and to provide an understanding of its application and importance to management.

In order to understand electronic commerce it is important to identify the different terms that are used, and to assess their origin and usage. According to the editor-in-chief of *International Journal of Electronic Commerce*, Vladimir was , 'Electronic commerce is sharing business information,maintaining business relationships and conducting businesstransactions by means of telecommunications networks'.1 He maintainsthat in its purest form, electronic commerce has existed for over 40 years,originating from the electronic transmission of messages during the Berlinairlift in 1948. From this, electronic data interchange (EDI) was the nextstage of e-commerce development. In the 1960s a cooperative effort between industry groups produced a first attempt at common electronic data formats. The formats, however, were only for purchasing, transportation and finance data, and were used primarily for intra-industry transactions. It was not until the late 1970s that work began for national Electronic Data Interchange (EDI) standards, which developed well into the early 1990s. EDI is the electronic transfer of a standardised business transaction between a sender and receiver computer, over some kind of private network or value added network (VAN). Both sides would have to have thesame application software and the data would be exchanged in an extremely rigorous format. In sectors such as retail, automotive, defence and heavy manufacturing, EDI was developed to integrate information across larger parts of an organisation's value chain from design to maintenance so that manufacturers could share information with designers, maintenance and other partners and stakeholders. Before the widespread uptake and commercial use of the Internet, the EDI system was very expensive to run mainly because of the high cost of the private networks. Thus, uptake was limited largely to cash-rich multinational corporations using their financial strength to pressure and persuade (with subsidies) smaller suppliers to implement EDI systems, often at a very high cost. By 1996 no more than 50,000 companies in Europe and 44,000 in the USA were using EDI, representing less than 1 per cent of the total number of companies in each of the respective continents. According to was, electronic commerce has been re-defined by the dynamics of the Internet and traditional e-commerce is rapidly moving to the Internet.

**Models of E-Commerce**

Electronic commerce is the process of conducting commercial transactions electronically over the Internet. This process is carried out primarily in five levels, and the main aspect of e-commerce is a merchant selling products or service to the consumers.

**Business to Business E-commerce (B2B)**

E-business is the process of conducting business on the Internet. Its scope includes not only buying and selling but also services, fulfilling the needs of customers and collaborating with business partners.

**Business to Consumers E-commerce (B2C)**

It is for the customers to buy stores from the web. The problem to be recognized in this is to secure payment, using encryption, transaction integrity, quick response, time and reliability.

**Consumer to Consumer E-commerce (C2C)**

Here interaction is between consumers to consumer. For example, in sites like e-Buy Bid or Buy.com, Baazi.com which are auction sites, one can virtually sell and buy any goods (either used or new ones).

**Consumer-to-Business E-commerce (C2B)**

E-commerce, by empowering the customer, has been strategically redefining business. An example of C2B model of e-commerce is the site Price line.com, which allows prospective airline travellers, tourists in need of hotel reservations etc. to visit its websites and indicate their preferred price for travel between any two cities. If an airline is willing to issue a ticket on the customers offered price, the consumer can then travel to the mentioned destination at his terms.

**Business to Employees E-commerce (B2E)**

This is concerned more with marketing a corporation's internal processes more efficiently. Customer care and support activities also hold ground. The requirement is that are all self-service with applications on the web that the employees can use themselves.

**What Are the Key factors?**

It is important to identify the key drivers of e-commerce to allow a comparison between different countries. It is often claimed that e-commerce is more advanced in the USA than in Europe. These key drivers can be measuredby a number of criteria that can highlight the stages of advancement of e-commerce in each of the respective countries. The criteria that can determine the level of advancement of e-commerce are summarised.

**1** *Technological factors:* The degree of advancement of the telecommunications infrastructure which provides access to the new technology for business and consumers.

**2** *Political factors:* the role of government in creating government legislation, initiatives, and funding to support the use and development of e-commerce and information technology.

**3** *Social factor:* incorporating the level and advancement in IT education and training which will enable both potential buyers and the workforce to understand and use the new technology.

**4** *Economic factors:* including the general wealth and commercial health of the nation and the elements those contribute to it.

**What is the impact of electronic commerce?**

E-commerce and e-business are not solely the Internet, website companies. It is about a new business concept that incorporates all previous business management and economic concepts. As such, e-business and e commerce impact on many areas of business and disciplines of business management studies.

*Marketing:* issues of on-line advertising, marketing strategies and consumer behaviour and cultures. One of the areas in which it impacts particularly is direct marketing. In the past this was mainly door-to door, home parties (like the Tupperware parties) and mail order using catalogues or leaflets. This moved to telemarketing and TV selling withthe advances in telephone and television technology and finally developedinto e-marketing spawning ‘e CRM’ (customer relationship management) data mining and the like by creating new channels for directsales and promotion.

*Finance and accounting:* on-line banking; issues of transaction costs; accounting and auditing implications where ‘intangible’ assets and human capital must be tangibly valued in an increasingly knowledge based economy

*Economics*: the impact of e-commerce on local and global economies; understanding the concepts of a digital and knowledge-based economy and how this fits into economic theory.

*Production and operations management:* the impact of on-line processing has led to reduced cycle times. It takes seconds to deliver digitized products and services electronically; similarly the time for processing orders can be reduced by more than 90 per cent from days to minutes. Production systems are integrated with finance marketing and other functional systems as well as with business partners and customers.

*Management information systems:* analysis, design and implementation of e-business systems within an organisation; issues of integration of front-end and back-end systems.

*Human resource management:* issues of on-line recruiting, home working and ‘entrepreneurs’ working on a project by project basis replacing permanent employees

**The future of e commerce**

In 1996, Forrester Research Institute (www.forrester.com) predicted that B2C would be a $6.6 billion business in 2000, up from $518 million in 1996. Then they revised the figure to $20 billion, and the prediction keeps growing. In 1997, about $10 billion worth of B2B transactions were conducted over the Internet. Predictions on the total size of E-Commerce vary. For 2010, total online shopping and B2Btransactions are estimated to be in the range of $700 billion to $4 trillion. Some E-Commerce applications, such as auctions and online stock trading, are growing at a rate of 15 percent to 25 percent per month, and the number of Internet users worldwide is predicted to reach 750 million by 2008. As many as 50 percent of Internet users are predicted to be online shoppers. One indication of the prospect of E-Commerce is the price of E-Commerce-related stocks on the Internet.

Most E-Commerce companies, such as Arnazon.com, are not making a profit. They are expanding operations and generating sales growth. It is believed that by 2010 most of the major E-Commerce companies will start to generate sizable profits. Is E-Commerce just another buzzword or is it real? We believe that it is real because of its potential benefits.

**E- Commerce in India**

For developing countries like India, e-commerce offers considerable opportunity. Ecommercein India is still in nascent stage, but even the most-pessimistic projections indicate a boom. It is believed that low cost of personal computers, a growing installed base for Internet use, and an increasingly competitive Internet Service Provider (ISP) market will help fuel e-commerce growth in Asia's second most populous nation. Indian middle class of 288 million people is equal to the entire U.S. consumer base. This makes India a real attractive market for e-commerce. To make a successful e-commerce transaction both the payment and delivery services must be made efficient. There has been a rise in the number of companies' taking up e-commerce in the recent past. Major Indian portal sites have also shifted towards e-commerce instead of depending on advertising revenue. Many sites are now selling a diverse range of products and services from flowers, greeting cards, and movie tickets to groceries, electronic gadgets, and computers. With stock exchanges coming online the time for true e-commerce in India has finally arrived. On the negative side there are many challenges faced by e-commerce sites in India. The relatively small credit card population and lack of uniform credit agencies create a variety of payment challenges unknown in India. Delivery of goods to consumer by couriers and postal services is not very reliable in smaller cities, towns and rural areas. However, many Indian Banks have put the Internet banking facilities. The speed post and courier system has also improved tremendously in recent years. Modern computer technology like secured socket layer (SSL) helps to protect against payment fraud, and to share information with suppliers and business partners. With further improvement in payment and delivery system it is expected that India will soon become a major player in the e-commerce market.

**What are the barriers to e-commerce?**

The drivers of e-commerce were identified and summarised in barriers to the growth and development of e-commerce. Numerous reports and surveys identify the different kinds of barriers, and many of them focus on security as being one of the largest inhibitors to and problems for e-commerce. Commerce Net (a non-profit consortium of business, technology, academic and government leaders who develop and implement e-commerce technology and business practice) conducts an annual time series survey of visitors to the Commerce Netwebsite, to identify the barriers to e-commerce. Different nations are at different stages of development of e-commerce and as such the issues that are relevant to one nation may not be relevant to another. Similarly, the issues that are relevant to the type of organisation also differ. For example, large organisations have different needs and infrastructures to SMEs. The study of 1,000 visitors divides the findings into the perspectives of three different types of organisation: large B-to-B organisations; SME B-to-B enterprises; and B-to-C retailers. The study also divides the results into US and non-US based. This is particularly useful because the USA is at a moreadvanced stage in the e-commerce adoption lifecycle than the majority of other nations and so can be used as a predictor of things to come or as a warning to prevent followers experiencing similar pitfalls and problems.

## Summary

Thus, e-commerce is still commerce and still about human beings. Customers are still customers and merchants want people at their end. They send confidential, personal and financial information only by e-mail or can cash on the phone or might just prefer to visit in person. E-commerce is just only a new way of doing business or an additional method of doing business. It is a new generation technology, a new method of doing business with new generation technology. Still, there are many drawbacks which fail to benefit the users of technology to a great extent.E-commerce is to be viewed as business but not as a technology issue. It must be business driven but not IT driven and initiatives must be integrated thoroughly into the existing commerce structure and strategy.

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