Corporate Governance in India: Issues and Importance

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ABSTRACT: *Corporate governance is a broad term in business environment. Corporate governance is one of the best system by which corporate organizations are guided and managed. In corporations owners doesn't administers or manage the organization, they only hold the ownership and administration powers are given to the boards of directors. They administer the organization by keeping in mind the interests of shareholders and other stakeholders. Corporate governance coordinates the economic and social goals. It involves promotion of the compliance of law and spirit ethical conduct. Corporate Governance is an overview of rules and regulations for the people in-charge of an incorporated firm. They are the ones who agree to take responsibility towards the shareholders. Without corporate governance no corporate entity can survive for a long time in the corporate world. Now every organization /corporate are paying vast attention on corporate governance. In some organizations they also prepare separate brochures on corporate governance; which makes all the rules, regulations and procedures on corporate governance clear to all related parties budgets for corporate governance. In this era of globalization Indian Corporate are realizing the need for initiation of good corporate governance practices so as to create a total enterprise value which is not possible in a short period of time. Although India has constantly a good ranker on the corporate governance regulation charts. But it still has a long way to go. In this paper we will study the concept and principles of corporate governance along with its importance from the viewpoint of India. Then we will discuss the various issues and challenges related to corporate governance.*

Key Words: *Governance, Corporation, Executives, Ethical.*

INTRODUCTION

Corporate governance is the mechanisms, processes and relations by which corporations are controlled and directed. It comprises of the rules & procedures for making decisions in corporate affairs and the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. Governance mechanisms consist of, monitoring the policies, practices, and decisions of corporations, their agents, and other stakeholders. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders). Corporate governance is fully based on the four fundamental keystones of fairness, transparency, accountability and responsibility. Ethics are essential as they extend beyond corporate law. Different countries have different models of corporate governance.

The corporate governance structure in a given country is determined by many factors viz. the legal and regulatory framework, the corporate environment in the country, and each corporation's articles of association. In each country, the corporate governance structure has certain characteristics which distinguish it from structures in other countries. Researchers have identified three models of corporate governance in developed capital markets. These are the (i) Anglo-US model, (ii) the Japanese model and (iii) the German model. Each model identifies the following constituent elements: the share ownership pattern in the given country, the composition of the board of directors, key players in the corporate environment, the regulatory framework, corporate actions requiring shareholder approval, disclosure etc. Corporate governance practices are affected by attempts to align the interests of a particular stakeholder. In India corporate governance practices received due importance only after the following the high-profile collapses of a number of large corporations during 2001–2002 and most of which involved accounting corrupt practices or fraud; and then again after the recent financial crisis in 2008-09.

PRINCIPLES OF CORPORATE GOVERNANCE

- **Recognition to each shareholder:** Small shareholders in an organization have little impact on the stock price and so their interests generally disregarded and more importance is given to interests of majority shareholders and the executive in board. But principle of corporate governance says that organizations must value the rights of each shareholder and make sure that all shareholders are allowed to participate.

- **Duties toward other stakeholders:** Every organizations should be aware of that they have legal, social, and market driven obligations to non-shareholder stakeholders i.e. employees, creditors, suppliers, customers etc. And fulfilling of these obligations is must for the good corporate governance.
- **Effective role of the Board:** The board needs to be of adequate size and have appropriate levels of independence. It also needs relevant skills to review and challenge management performance. All board members must be on the same page and share a similar vision for the future of the company.
- **Ethical behavior:** Every organization should develop such a code of conduct for their directors, executives and other members that promote ethical and responsible decision making.
- **Transparency:** Organizations should clarify the roles and responsibilities of board and management to provide stakeholders with a level of accountability. All the relevance matters concerning the organization should be made available to concerning party timely.

REVIEW OF LITERATURE

Rujitha (2012) studied Regulatory issues in Corporate Governance and found that the loop holes in the provisions have to be removed. Companies should not be left to escape by taking advantage of the limitations of the clause 49 of the listing agreement. The function of the audit committee has been expanded to include oversight of risk management control systems to create an environment for the adherence to the practices of good corporate governance.

Aggarwal (2013) examined the impact of corporate governance on financial performance of firm in an Indian context through different statistical tests and inferred that governance rating of company has a significant positive impact on its financial performance.

Unadkat (2017) found that India has witnessed several enactments which have contributed significantly in strengthening governance norms and in increasing accountability by way of disclosures. Interestingly, these changes have been inspired by the Anglo-Saxon or Anglo-US model of corporate governance. But for achieving desired results in India, it is vital that regulatory measures to be adopted based on the practices and business environment in India.

OBJECTIVES OF THE STUDY

- ✓ To understand the concept of corporate governance.
- ✓ To Study the importance of good corporate governance.
- ✓ To Study the Issues & challenges on the way to good corporate governance.

RESEARCH METHODOLOGY

This paper is a descriptive in nature. The study has been carried out based on the collection of the relevant secondary data which was collected from the various sources such as published reports, books, articles published in different journals & newspapers, periodicals, conference paper, working paper of different organizations or individuals and blogs of websites etc.

❖ **WHY CORPORATE GOVERNANCE IS IMPORTANT/NEEDED**

1. **Changing ownership and business structure:**
   In recent years, the ownership structure of companies has changed a lot. Now Public financial institutions, mutual funds, etc. are the single largest shareholders in most of the large companies. They have effective control on the management of the companies. They force the management to become more efficient, transparent, accountable, etc. They also ask the management to make consumer-friendly policies, to protect all social groups and to protect the environment. That is how the changing ownership structure has resulted in corporate governance. Scale of business activities has grown in manifolds. For obtain the economies of growth many takeovers and mergers takes place in the business world. And corporate governance is required to protect the interest of all the parties during that takeovers and mergers.
2. **Increased importance of corporate social responsibility:**
   In current scenario corporate social responsibility is given a lot of importance. As businesses gain everything from society so society also has some expectation from businesses. And responsibility for fulfilling these expectation by corporate is called corporate social responsibility. Social responsibility requires from the board to protect the rights of the every related party i.e. customers, employees, shareholders, suppliers, local communities, etc. For fulfilling all these liabilities they need corporate governance.

3. **Increased corrupt practices in business:**
In recent years, many scams, frauds and corrupt practices have come into light. Misuse and misappropriation of public funds are happening in the stock market, banks, financial institutions, companies and government offices at large scale. For the purpose to avoid these financial irregularities, many companies have started corporate governance.
4. **Inactiveness of shareholders:**
shareholders only attend the Annual general meeting of their companies. They are generally inactive in the management. Shareholders associations are also not strong. Directors generally make the profit of this situation and misuse their power. So, there is a imperative need for corporate governance to protect all the stakeholders of the company.
5. **Globalised era:**
As now Indian economy had become globalised, most big companies are selling their goods in the global market. For maintaining and growing they have to attract foreign investor and foreign customers and they also have to follow foreign rules and regulations. All this requires corporate governance. Without Corporate governance, it is impossible to enter, survive in the global market.
6. **Legal bindings:**
Practice of corporate governance is also required by the law. In India SEBI and Indian companies Act define the scope and process of corporate governance. SEBI has made corporate governance compulsory for certain companies. This is done to protect the interest of the investors and other stakeholders.

❖ **ISSUES & CHALLENGES IN CORPORATE GOVERNANCE**

1. **Selection procedure and term of Board:**
selection procedure adopted in Indian corporations is biggest challenge for good corporate governance. Law requires a healthy mix of executive and non-executive directors, independent directors and woman director. Most companies' in India tend to only comply on paper; board appointments are still by way of "word of mouth" or fellow board member recommendations. It is common for friends and family of promoters and management to be appointed as board members.
Life-term board members can pose many problems to business say fixed beliefs, power gaining etc. so no business prefers to appoint board members for life-term. And if the board is very short then they will not take long term decisions with full of their efficiency because in long run they will be changed or relieved from their duties. So the term of board must be fixed with due attention. Typically in a board of directors, directors sit for a brief term say 2 to 5 years and it is good practice to switch some of directors at a fixed time interval instead of changing whole board at a single time.
2. **Performance Evaluation of Directors:**
SEBI, India's capital markets regulator, has released a 'Guidance Note on Board Evaluation' in January 2017. Which cover all major aspects of Board Evaluation including the Subject & Process of Evaluation, Feedback to the persons being evaluated, Action Plan based on the results of the evaluation process, Disclosure to stakeholders, Frequency & Responsibility of Board Evaluation. But for achieving the desired objectives from performance evaluation, they need to make the evaluation result public and these disclosures may put the corporate in big trouble.
3. **Missing Independence of Directors:**
Independent directors' appointment was supposed to be the biggest corporate governance reform by kumar mangalam committee on corporate governance in 1999. However in reality independent directors have hardly been able to make the desired impact. Till now the appointment of directors in most of companies is made at the discretion of promoters, so it is still questionable. For providing the true success it is necessary to limit the promoter's powers in matters relating to independent directors.
4. **Removal of Independent Directors:**
Under law, an independent director can be easily removed by promoters or majority shareholders. When an independent director doesn't take the side with promoter's decisions, they are removed from their position by promoters. So to save their post directors have to work for the interest of promoters. To resolve this issue SEBI's International Advisory Board had proposed an increase in transparency for the appointment and removal of directors
5. **Liability toward Stakeholders:**
Indian company act 2013 mandates that directors owe duties not only towards the company and shareholders but also towards the other stakeholders and for the protection of environment. But generally board tries to limit and escape from these kinds of accountability. For this it may be a

good idea to require the entire board to be present at general meetings to give stakeholders an opportunity to pose questions to board.

6. **Founder/Promoter's extensive Role:**
   In India, instead of separate entity of businesses, promoters or founders continuously influence the business decisions Family owned Indian companies suffer an inherent inhibition to let go of control. They affect the decisions by influencing the board and management. This is done because they had the significant portion of company's share. So to remove this issue it will be good idea to amplify the shareholder base and reduce the shareholding of founders.
7. **Transparency and Data Protection:**
   Corporate governance is based on the principle of transparency but it cannot be defined what information is to be disclosed or not. In today's cut throat environment of competition it can be very dangerous if wrong information be disclosed. In digitalization Privacy and data protection is a central governance issue. For this the board must be capable of handling data and to ensure the protection of such data from potential misuse. And by looking at the importance of data and the potential cost if data be misused, we can say that organization must invest a reasonable amount of resources to protect the data.
8. **Business Structure and internal conflicts:**
   Business structures also put hindrance on the way to good governance as they require many layers of management, executives and other officers. This makes it very difficult for the company leaders to receive accurate, important data from the lower levels and to command orders to lower level of the company as the data may be distorted at any point of chain. Board of executives can make much good decisions and policies. But if the internal relationship in organization say between board and managers is not good then the implementation of decisions and policies also get affected. Rebellious managers can sabotage corporate decisions and policies at many levels of the business.
9. **Environment of mistrust:**
   In recent years, many scams, frauds, misappropriation of public money and corrupt practices have taken place and because of the doubtful practices of key executives and board members, confidence of investors and society has diminished. It is happening in the stock market, banks, financial institutions, companies and government offices. This has made the business environment distrustful.

CONCLUSION

In this paper, we studied the importance of good corporate governance to a corporation or organization. In the process of good corporate governance organizations may have to face some problems in short run, but in long run it will be advantageous and investors would be promoted to act like owners rather than just traders. We also discussed issues and challenges in the way of corporate governance in India; most of these prevail only because of influenced working of directors. Directors are appointed by the promoters and then they influence the decisions of directors for their personal interest. These issues can be tackled by regulating the size, selection criteria and procedure of independent directors. And also regulating the role of promoters or founders in corporate so that directors can take their unbiased decision. There is also a need for having the credit rating agencies need to rate corporate governance practices of different corporations. This will create competition for having best governance practice. After studying this paper we can conclude that although India has achieved a good rank in corporate governance regulation but being a developing country has a long way to go on the path of corporate governance.

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