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CORPORATE GOVERNANCE IN INDIA-ISSUES AND PERSPECTIVE

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1.1 ABSTRACT

This paper addresses some of the issues and concerns faced by Indian companies on the issues of Corporate Governance. Corporate Governance is the set of policies that are created for deciding a company's performance and direction. It 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. Corporate governance is a broad term is today's business environment. The legal outfits of corporate governance can be customized to fit the meticulous choice of each we area. The paper will discuss corporate governance from India's point of view. It will analyze the barriers that an emerging economy like India has to face. In addition, it will explain why it is important for any country to follow good corporate governance practices. In the next section, it will look at how corporate governance became an inseparable part of Indian economy. Next, it discusses involvement of ethics, internal governance, and choice of auditor and audit committee for India. In the conclusion, the paper gives a summary of how corporate governance is influencing the present economic condition of India.

Keywords: Corporate, Governance, internal audit committee, ethics.

1.2 INTRODUCTION:

Corporate Governance is essentially all about how corporations are directed, managed, controlled and held accountable to their shareholders. In India, the question Governance has come up mainly in the wake of economic liberalization and de-regularization of industry and business. With the rapid pace of globalization many companies have been forced to tap international and consequently to face greater competition than before. Both policymakers and business managers have become increasingly aware of the importance of improved standards of Corporate Governance. India has one of the best corporate governance laws but poor implementation together with socialistic policies of the perform era has affected corporate governance. Concentrated ownership of shares, pyramiding and tunneling of funds among group companies mark the Indian corporate landscape.

1.3 OBJECTIVES:

1. To study the Issues and Challenges for Corporate Governance in India.
2. The paper also analyses regulatory deficiencies in corporate governance.
3. To know the perspectives of corporate governance.

1.4 RESEARCH METHODOLOGY

The said research study is purely based on secondary data have been collected from various journals, text book, publications such as annual reports , paper publications and collected from various web sites of corporate governances.

1.5 CONCEPTUAL BACKGROUND

Cadbury committee (1), 1 992 defined corporate governance as such:

- "Corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, auditors, employees and the management"
- "Corporate governance is 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, such as, the board, managers, shareholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objects are set and the means of attaining those objectives and monitoring performance"

corporate governance by the institute of company secretaries of India is as under:

"Corporate governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth anddischarge of social responsibilities for sustainable development of all stakeholders.

1.6 IMPORTANT ISSUES IN CORPORATE GOVERNANCE:

There are number of important issues in corporate governance. All the issues are inter related and interdependent to deal with each other. Each issues linked with corporate governance have different priorities in each of the corporate bodies.

The issues are mentioned below:

1) **Value based corporate culture:** For smooth operation of any firm, it is necessary to develop certain ethics, values. Long run business needs to have value based corporate culture. Value based corporate culture is good practice for corporate governance. It is a set of ethics, principles which are inviolable.
2) **Holistic view:** This holistic view is religious outlook which helps for effective operation of organization. It is not easier to adopt it, it needs special efforts and once adopted it leads to developing qualities of nobility, tolerance and empathy.
3) **Compliance with laws:** Those companies which really need advancement, have high ethical values and need to run long run business they abide and comply with laws of Securities Exchange Board Of India (SEBI), Foreign Exchange Regulation Act, Competition Act 2002, Cyber Laws, Banking Laws.
4) **Disclosure, transparency, and accountability:** Disclosure, transparency and accountability are important feature for good governance. Timely and accurate information should be disclosed on the matters like the financial position, performance. Transparency is needed in order that government has faith in corporate bodies. Transparency is needed towards corporate bodies so that due to tremendous competition in the market place the customers having choices don't shift to other corporate bodies.
5) **Corporate Governance and Human Resource Management:** In corporate culture, employees are vital for success of firms. Every individual should be treated with individual respect, his achievements should be recognized. Each individual staff and employee should be given best opportunities to prove their worth and these can be done by Human Resource Department. Thus in Corporate Governance, Human Resource has a great role.
6) **Innovation:** Every corporate body must involve in innovation practices i.e. innovation in products, in services and it plays a critical role in corporate governance.

7) **Necessity of Judicial Reform:** There is requirement of judicial reform for a good economy and also in today's varying time of globalization and liberalization. Judicial system of India though having performed salutary role all these years, certainly are becoming obsolete and outdated over the years. The delay in judiciary is due to several interests involved in it. But then with changing scenario and fast growing competition, the judiciary needs to bring improvements accordingly. It needs to promptly resolve disputes in cost effective manner.

8) **Globalization helping Indian Companies to become global giants based on good governance:** In today's competitive environment and due to globalization, several Indian Corporate bodies are becoming global companies which are possible only due to good corporate governance.

9) **Lessons from Corporate Failure:** Corporate body have certain policies which if goes as a failure they need to learn from it. Failure can be both internal as well as external whatever it may be, in good governance, corporate bodies need to learn from their failures and need to move to the path of success.

1.7 NEED OF CORPORATE GOVERNANCE:

Corporate Governance is needed to create a corporate culture of Transparency, accountability and disclosure. It refers to compliance with all the moral & ethical values, legal framework and voluntary adopted practices. This enhances customer satisfaction, shareholder value and wealth.

Corporate Performance: Improved governance structures and processes help ensure quality decision-making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and its sources of finance. This can be linked with improved corporate performance- either in terms of share price or profitability.

Enhanced Investor Trust: Investors consider corporate Governance as important as financial performance when evaluating companies for investment. Investors who are provided with high levels of disclosure & transparency are likely to invest openly in those companies. The consulting firm McKinsey surveyed and determined that global institutional investors are prepared to pay a premium of upto 40 percent for shares in companies with superior corporate governance practices.

Better Access to Global Market: Good corporate governance systems attracts investment from global investors, which subsequently leads to greater efficiencies in the financial sector.

Combating Corruption: Companies that are transparent, and have sound system that provide full disclosure of accounting and auditing procedures, allow transparency in all business transactions, provide environment where corruption will certainly fade out. Corporate Governance enables a corporation to compete more efficiently and prevent fraud and malpractices within the organization.

Easy Finance from Institutions: Several structural changes like increased role of financial intermediaries and institutional investors, size of the enterprises, investment choices available to investors, increased competition, and increased risk exposure have made monitoring the use of capital more complex thereby increasing the need of Good Corporate Governance. Evidence indicates that well-governed companies receive higher market valuations. The credit worthiness of a company can be trusted on the basis of corporate governance practiced in the company.

Reduced Risk of Corporate Crisis and Scandals: Effective Corporate Governance ensures efficient risk mitigation system in place. The transparent and accountable system that Corporate Governance makes the Board of a company aware of all the risks involved in particular strategy, thereby, placing various control systems to monitor the related issues.

1.8 PERSPECTIVE OF CORPORATE GOVERNANCE :

I] INDIA AND CORPORATE GOVERNANCE: Corporate governance has played a very important role in the present economic condition of India in 1991. From then onwards it has seen an amazing upward trend in the size of its stock market, that is, number of listed firms was increasing proportionately. Better corporate governance can be associated to reduce financial crises. If corporate governance practices are followed properly this creates better rapport with the stakeholders. it automatically affects the firm’s capital mobilization. Fraudulent behavior of companies has caused countries to go through financial crisis. From Satyam Computer Limited of India. Furthermore, understanding corporate governance standards and issues is also important to executives of foreign multinationals planning to do business with India

II] ETHICS: Business ethics is based on the vast topics of reliability and justice. Business ethics means applying the general ethical principles to business problems and finding the solution that will be “right” in all aspects. Business problems arise when the decision made by the board is going to affect either profitability or its shareholders in the end. Corporate governance acts as a bridge between shareholders, stakeholders, and board of directors. It should be able to restore the trust and confidence of management and the company to the shareholders in the company .As the paper discussed how important it is for a company to follow good corporate governance practices which are ultimately ethical too. Companies need to do much more than just attaining the good corporate governance practices; it should constantly strive for fulfilling the best interest of all its members. It focuses on deciding the management structure in any organization such as board of directors, audit committee, shareholders committee, selection of independent auditors etc. The basic issue with governance is that there is no objective measure against which it can be said if it is good or bad. Here the companies‟ ethics come into play. Corporate Governance practices should be planned in such a way that it will encourage a suitable atmosphere for corporate social responsibility, reliability, and ethics.

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III] INTERNAL GOVERNANCE: Debt holders, shareholders, board of directors, all together contribute to decide internal governance for any organization. Being the decision makers of the company the board of directors are the most crucial and inseparable part for any company. Board of Director – The proprietor and shareholders are associated to each other through board of directors. They are the link between managers sitting in the corporate office and the huge group of controllers of a corporation that are all over the world. They have fiduciary duty towards its shareholders, as shareholders are the ones who have elected them as board of director. The board is made up of internal and external directors. The internal directors sometimes called as executive directors are usually senior position holder people from the firm; they usually know intimate details about the company and its performance. Whereas the external directors‟ also known as non-executive directors are not the employees of the company, they are experts in their subject that is important as per the company .Duty of care and duty of loyalty are the most important roles of any director.

IV] ELECTION OF AUDITORS AND AUDIT COMMITTEE A company can choose to have internal or external auditor. Internal auditors are usually full time company employees whereas external auditors are hired on a contractual basis they are independent of the entity they are auditing. After the collapse of Enron, Sarbanes-Oxley act of 2002 issued several new rules regarding the auditors and their committee. First, the auditor of any company will be involved only in consulting activities. Second, auditing committee is selected by independent board of directors rather than by chief financial officer. Third, public chartered accountants oversight board regulates accountants; they monitor all the accounting firms too. Fourth, lead accounting partner should be rotated every five years just to avoid any clashes between auditor and the company.

V] LIMITATIONS AND IMPLICATION FOR THE FUTURE: As the scope of this paper was limited to India, it discusses only the perspective of India's corporate governance. For future research, more developing and developed countries can be compared to see the effects of reforms of corporate governance practices. In addition, this paper discusses only four of the influencing factors of corporate governance that is ethics, internal governance, and selection of auditors and audit committees; other factors that influence corporate governance can be analyzed and added to this study too. To study this topic further, in future more research can be done to see how firms from countries like India affect the corporate governance of other countries as they develop new relations abroad.

1.9 CONCLUSION:

This paper addresses some of the issues and concerns faced by Indian companies on the issues of Corporate Governance. An emergence of vibrant corporate sector post 1991 liberalization, all the developments related to Corporate Governance have occurred after this period. SCOPE is playing an important regulatory role for Public Sector Enterprises (PSEs). Certain large private sectors corporate, such as TCS, are doing credible work in this area. Periodic government intervention, like enactment of Clause 49 & Company Act 2013 (which has replaced Company Act 1956), is also contributing to both private & public sector enhancing corporate governance standards.

If one has to summarize, the ultimate objective of corporate governance is to attain the highest standard of procedures and practices followed by corporate world so as to have transparency in its functioning with an ultimate aim to maximize the value of various stakeholders of the organization. The issue of understanding and application of Corporate Governance in letter and spirit is very important for any organization to be successful and competitive in the long run.

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