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# Corporate Governance in India: An Introspection

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**ABSTRACT**

*Good corporate governance practices are a sine qua non for sustainable business. It results in generating long-term value to all its shareholders and other stakeholders. Corporate governance (CG) is not a recent phenomenon. It is in existence for a number of years. The sudden collapse of established corporations like World Com and Enron created tremors and shock waves around the globe. These incidents show why corporate governance needs to be introduced in directing or controlling a company. A transparent, ethical and responsible corporate governance framework is very much needed for good governance. Corporate governance is a term that refers broadly to the rules, processes, or laws by which businesses are operated, regulated and controlled. In India, different committees were set up to evaluate the adequacy of existing corporate governance practices and different suggestions were received from those committees to improve the practices. If good corporate government is adopted, it may provide stability and growth to the enterprises. It helps build trust and confidence among the stakeholders. In this perspective, an attempt has been made in this paper to discuss about 'Corporate Governance' embracing the concept, definition, importance, constituents, principles, benefits and regulatory framework (in Indian context).*

**Keywords : Corporate governance, Ethical, Stakeholders and Sustainable business.**

## INTRODUCTION

Good corporate governance practices are a sine qua non for sustainable business. It results in generating long-term value to all its shareholders and other stakeholders. The Ministry of Corporate Affairs, SEBI and other sectoral regulators administer some aspects of corporate governance that is enshrined in the law. A transparent, ethical and responsible corporate governance framework is very much needed for good governance. These generally emanate from the intrinsic will and passion that is ingrained in the business entity. The global financial crisis during the recent past, corporate failures etc. have hastened to adopt the corporate governance in order to build trust, increase confidence among the stakeholders. The introduction of corporate governance augments reputation, makes an image building due to reliability, accountability and transparency.

## DEFINING CORPORATE GOVERNANCE

Corporate governance may be defined as the set of systems, principles and processes through which a company is governed. It provides a set of guidelines that can direct or control the company in a bid to fulfill its goals and objectives. It adds to the value of the company and is also beneficial for all stakeholders in the long term. It is the framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government and the community). It is "procedures and processes according to which an organization is directed and controlled". According to the Institute of Company Secretaries of India, 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 and discharge of social responsibility for sustainable development of all stakeholders". According to Cadbury Committee (UK), 1992, 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, employees, auditors and the management. India's SEBI Committee on Corporate Governance defines corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct, and about making a distinction between personal and corporate funds in the management of a company."

## WHY CORPORATE GOVERNANCE

Good corporate governance practices are the need of the hour because of the following reasons:

- It ensures inclusive growth. It results in corporate growth and as a consequence the fruits of that growth are enjoyed by every section of society.
- Healthy, sound, effective and efficient corporate governance practices help stimulate the performance of companies, maximize their operational efficiency, achieve sustained productivity and also ensure to give protection for the intact of shareholders' interests.
- It gives birth to the integrity of corporations, financial institutions and markets.
- Good corporate governance practices enhance the companies' value and stakeholders' trust. It yields the robust development of capital market as well as the economy of a country. It also helps in the evolution of a vibrant and constructive shareholders' activism.
- It helps attain the highest level of transparency, accountability and integrity.
- If the good corporate governance practices are strictly followed, it may satisfy the aspirations of all stakeholders, customers, suppliers, leaders, employees, the shareholders, and the expectations of the society.
- If the good corporate governance practices are existent, then it can increase the level of confidence. The presence of an active group of independent directors on the board

contributes a great deal towards ensuring confidence in the market.

- If the company or companies has/have clean image/s on the corporate governance, they can accumulate/raise capital easily at more reasonable costs.

For the success of a company, it needs to concentrate on both economical and social aspect. It needs to be fair with producers, shareholders, customers etc. It has various responsibilities towards employees, customers, communities, and at last towards governance and it needs to serve its responsibilities at the best at all aspects.

**PARTIES TO CORPORATE GOVERNANCE**

- Managers
- Board of Directors
- Shareholders
- Customers
- Employees
- Workers
- Banks and Lenders
- Environment and the Community at large
- Suppliers
- Vendors
- Dealers
- Regulators

**Main Constituents of corporate governance**

1) A clear, explicit, understandable and unambiguous legislative and regulatory framework is fundamental to effective corporate governance.

2) It is important that the codes of conduct of an organization is communicated to all stakeholders and are clearly understood by them.

3) The objective of the company must be clearly documented in a long-term corporate strategy.

4) There should have a clearly established process of identifying, analyzing and treating risks, which could prevent the company from effectively achieving its objectives.

5) An independent board is essential for sound corporate governance. It means that the board is capable of assessing the performance of managers with an objective perspective.

6) Board appointments ensure that the most competent people are appointed in the board, the board positions must be filled through the process of extensive search.

7) It is essential to ensure that directors remain abreast of all development, which are or may impact corporate governance and other related issues.

8) The board requires comprehensive, regular, reliable, timely, correct, and relevant information in a form and of a quality that is appropriate to discharge its function of monitoring corporate performance.

**PRINCIPLES OF CORPORATE GOVERNANCE**

- Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meeting.

- Organizations should recognize that they have legal, contractual, social and market driven obligations to non-shareholder stakeholders including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

- The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.

- Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promote ethical and responsible decision-making.

- Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

**ORGANIZATIONAL AND LEGAL FRAMEWORK OF CORPORATE GOVERNANCE IN INDIA**

The Indian Companies Act 1956, the Securities and Exchange Board of India (SEBI) and the professional body of auditors created by the Institute of Chartered Accountants of India (ICAI) are the legal and institutional mechanisms in India to oversee and control the financial reporting by Indian companies.

- Provisions of Companies Act, 1956: The Companies Act 1956 regulates Companies of our country. This Act has also been amended extensively through the Companies (Amendment) Act, 2000. The Act has put emphasis on the establishment, role and composition of audit committees, and made the necessary disclosures in the financial statements. The amendments to Sections 217 and 292 of the Companies Act, 1956, made applicable from December 13, 2000 that set the tone for Corporate Governance in India.

- The Confederation of Indian Industries (CII): The Confederation of Indian Industries (CII) came up with the first voluntary code of corporate governance in 1998. More than a year before the onset of the East Asian crisis, the CII set up a committee to examine corporate governance issues and to recommend a voluntary code of best practices. The first draft of the code was prepared by April 1997, and the final document titled Desirable Corporate Governance: A Code was publicly released in April 1998.

- The Securities and Exchange Board of India (SEBI): A major corporate governance initiative in the country was undertaken by SEBI. Since it's setting up in 1992, a number of initiatives were taken by the board towards investor protection. In early 1999, it set up a committee under Kumar Mangalam Birla to promote and raise the standards of good corporate governance. The SEBI, on the recommendations of Kumar Mangalam Birla Committee, specified principles of corporate governance by introduction of new clause 49 in the Listing Agreement with the Stock Exchanges in 2000. After enactment of Sarbanes Oxley Act (SOX) in 2002, the corporate governance practices in our country were reviewed. The Naresh Chandra Committee was appointed in August 2002 by the Ministry of Corporate Affairs to examine various corporate governance issues. This committee submitted its report in December 2002. It had also set up a National Foundation for Corporate Governance (NFCG) in association with the CII, ICAI and ICSI to provide a platform to deliberate on issues relating to good corporate governance. Thereafter another committee named as Narayana Murthy Committee was set up by SEBI under the chairmanship of Mr. N. R. Narayana Murthy with a view to review Clause 49, and suggest measures to improve corporate governance standards. Based on some of the recommendations of this committee, SEBI revised Clause 49 of the listing agreement in August 2003. It was again revised in October 2004 and made applicable from 1st January 2006.

¨ A number of other corporate groups joined the corporate governance dialogue. The National Association of Software and Service Companies (NASSCOM) also formed Corporate Governance and Ethics Committee chaired by Mr. N. R. Narayana Murthy. The committee issued its recommendations in mid-2010 focusing on the stakeholders in the company.

**BENEFITS OF CORPORATE GOVERNANCE**

The concept of corporate governance has been gaining importance today. The wide acceptance for its relevance and importance to the industry and economy cannot be gainsaid. The efficiency of a business enterprise and the growth and progress of a country's economy depend on good corporate governance. So the firms voluntarily put in place systems of good corporate governance for the following reasons:

- Corporate governance helps to build trust and confidence among the stakeholders. Investors express their willingness to pay higher prices to the corporates that comply with strict adherence to internally accepted norms of corporate governance.
- Adoption of good corporate governance practices provides stability, long-term sustenance and growth to the enterprise. It strengthens/cements stakeholders' relationship.
- Potential stakeholders are interested to build up the relationships with enterprises whose governance credentials are exemplary.
- Effective governance reduces perceived risks, consequently reduces cost of capital and enables board of directors to take quick and better decisions, which ultimately improves bottom line of the corporates.
- It enhances shareholders' value and protects the interests of other stakeholders through improvement of the corporate performance and accountability.
- It reduces the capital cost.
- Good corporate governance yields a positive impact on the share price.
- Good corporate governance also minimizes wastage, corruption, risks and mismanagement.
- It helps in brand formation and development.

**CONCLUSIONS**

Corporate governance is of paramount importance to a company. The essence of corporate governance is in promoting and maintaining integrity, transparency and accountability in the management of a company. Good corporate governance is a must in our corporate structure for today's complex and dynamic business environment to ensure sustainability. If it is executed effectively, it can prevent corporate scandals, fraud and the civil and criminal liability of a company. A corporation without a system of corporate governance is often regarded as a body without a soul or conscience. Weak corporate governance leads to waste, mismanagement and corruption. Strong and healthy corporate governance recognize the diverse interests of shareholders, lenders, employees, government etc. It enhances company's values and stakeholders' trust resulting into robust development of capital market, the economy and also helps in the evolution of a vibrant and constructive shareholders' activism.

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