IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

A CONCEPTUAL STUDY OF CORPORATE GOVERNANCE ISSUES, PRACTICES, AND CONCERNS IN THE INDIAN CONTEXT

1ST NAME – KOYEL GHOSH

LL.M 2ND YEAR OF BRAINWARE UNIVERSITY IN KOLKATA

E-mail- ghoshkoyel2025@gmail.com

2ND NAME – MANJURI BISWAS

LL.M 2ND YEAR OF BRAINWARE UNIVERSITY IN KOLKATA

E-mail- manjuri237biswas@gmail.com

Abstract

This conceptual paper aims to explain the idea of corporate governance in a clear and understandable way. The article examines problems such as the significance of the idea of corporate governance in companies, its goal, the performance expectations of all stakeholders, and the necessity of corporate governance for strategic planning and strategy implementation in an organisation. This paper also looks at new studies conducted in the Indian setting, procedures and controls, and the effect of corporate governance on organisational productivity. The article also examines the many corporate governance codes that have developed in India. The study includes discussion of implementation problems in the context of Indian businesses. In the article, the function of corporate governance in public sector companies (PSEs) and the function of Standing Conference of Public Firms (SCOPE), the supreme body for public sector enterprises in India, are also highlighted. Contrast this with the corporate governance practises now in place in India's private sector.

Keywords :- Corporate Governance, Public Sector & Private Sector in India, Strategy Implementation Issues and Corporate Governance Codes in India, Standing Conference of Public Enterprises (SCOPE), Tata Consultancy Services (TCS).

INTRODUCTION

The interaction between the various stakeholders for a company is referred to as corporate governance, and it defines the direction and performance of an organisation or corporate entity. For any firm to experience continuous, sustainable growth, it has always been important to comprehend the problems and issues at hand and to adhere to the letter and spirit of good corporate governance. This topic has become increasingly important as a result of the recent revelations of numerous corporate crises in India and other countries due to poor corporate governance practises on the side of such organisations. The principal participants in corporate governance are the bodies listed below.

1) The Chief Executive Officer, i.e. the top person in the organization & the top management of the organization

2) The board of directors

3) The shareholders

Employees, suppliers, consumers, creditors, and the community, or all the organization's stakeholders, are the additional players that have an impact on corporate governance. A corporation is an entity that is used to obtain capital, invest in assets that produce goods and services, and distribute those goods and services.

- **WHY THE ISSUE OF CORPORATE GOVERNANCE IS IMPORTANT?**

The company's values are reflected in the corporate governance. Corporate governance has received more attention recently because it has been demonstrated in numerous businesses across the globe that the governance systems occasionally fall short of effectively monitoring and reining in top managers' decisions. According to significant profits occur when CEO incentive alignment and monitoring systems cooperate as complements as opposed to as alternatives. Additionally, they demonstrate that having both internal and external monitoring measures in place yields substantial profits. Their findings unambiguously imply that the way each governance mechanism interacts with the other mechanisms in the governance bundle determines how effective board independence and CEO non-duality—governance procedures often assumed to alone overcome the agency problem—can be. Due to this circumstance, corporate governance practises all over the world have changed, particularly in regards to initiatives aimed at enhancing the effectiveness of boards of directors. In order to cover the regulatory gap in the worldwide footprint, many corporate firms have started taking on social and political duties that go beyond what is required by law. Another, more encouraging reason for growing interest is that research reveals that an effective corporate governance and control system can give a particular firm a competitive edge. This holds true for businesses everywhere, including those in India.

- **OBJECTIVES OF CORPORATE GOVERNANCE**

• To increase shareholder value and safeguard the interests of other stakeholders by strengthening corporate performance and responsibility.

• To create a climate of trust and confidence among those with competing and conflicting interests.

NEED FOR GOOD CORPORATE GOVERNANCE

According to research, effective corporate governance can boost share price performance. There is evidence that businesses with effective corporate governance mechanisms have a high potential for success, with developing businesses benefiting the most. According to studies, investors are more eager to invest in a company with superior corporate governance. Corporate governance, particularly in a nation like India, can be a very effective tool for growth.

The ensuing concerns are crucial for effective corporate governance.

• Shareholders' obligations and rights.

• Fair treatment of all parties involved.

• The role of each stakeholder is defined explicitly, and a connection to corporate governance is made.

• Transparency, information sharing, and audit.

•The board of directors' responsibilities are well-defined.

• Clearly defined executive management, compensation, and performance.

• Clearly defined role of non-executive board members.

- **MECHANISM AND CONTROL FOR CORPORATE GOVERNANCE**

The rules and process are made to lessen the inefficiencies brought on by moral inconsistencies and unfavourable selection. When creating mechanisms and controls for corporate governance, ethical diversion is a crucial concern. The following could be problematic:

• Monitoring the Function/Efficacy of the Board of Directors; • Compensation of the Board Members and Other Company Employees.

• Accountability and responsibilities for Audit Committees – financial reporting process, oversight of the selection of accounting policies and principles, oversight of the internal control process, and policy decisions for the hiring and performance of the external auditors.

• Issues and worries about governmental regulations • Knowledge of the competition's strategic problems • Management of the labour market and worries about control mechanisms.

- **THE IMPACT OF CORPORATE GOVERNANCE ON PRODUCTIVITY AND THE CORPORATE SECTOR IN INDIA**

In the protected economy, the corporate sector typically followed the cost of production plus philosophy. Indian industries continued to use existing technologies and remained unresponsive to technological developments and happenings because they were not exposed to any significant competition. However, this trend is changing among many corporate houses over time, and some Indian companies are becoming extremely competitive and utilising technological, process, and product innovation to become global players in their fields. The topic of corporate governance has received significant attention from all such Indian enterprises.

- **IN INDIA ON THE ISSUES OF CORPORATE GOVERNANCE**

As was previously said in this essay, the subject of corporate governance is gaining popularity for its applicability and fundamental significance in business and the financial markets. Since a long time ago, forward-thinking businesses in India have deliberately implemented systems of sound corporate governance. Even while this topic has long been accepted internationally, the financial crisis in emerging nations has sparked new debates that are centred on the problem of corporate governance.

- **IMPLEMENTATION, KEY ISSUES ON VARIOUS CODES OF GOVERNANCE FOR INDIAN COMPANIES**

1) The mandatory recommendations of the Birla Committee (1999) are:

• Includes all publicly traded corporations.

• Directors' Board of Directors membership: - The ideal ratio of executive directors to non-executive directors

• Audit Committee: - Consists of three independent Directors, one of whom is knowledgeable about finance and accounting.

• Concerns with establishing a compensation committee to examine the compensation of the chairman, managing director (chief executive officer), board members, and other executives and staff members of the organisation.

•Board procedures include the following:

1. A minimum of four board meetings per year, with a maximum of four months between meetings.
2. During the meetings, operational plans, capital budgets, quarterly outcomes, and committee meeting minutes should be reviewed. In all firms, a director may serve on no more than 10 committees and may chair no more than five of those committees.

3. A report on management's discussion and analysis that examines the internal control system, opportunities, threats, and industry structure.
4. The process and controls for communicating information to shareholders.

2) Non-Mandatory Recommendations of Birla-Committee:

• Concerns regarding:

1. The Chairman's role;
2. The Managing Director's or CEO's role;
3. The Board's Remuneration Committee.
4. Shareholders' entitlement to receive financial performance updates on a semi-annual basis .
5. Sale of the entire venture or a significant portion of it .
6. Corporate restructuring .
7. Starting a new business.

3) Implementation of Recommendations of Birla Committee passed by the Indian Parliament.

4) By introduction of clauses 49 in the listing agreement with stock exchange. Provisions of clause – 49 are:

• Board composition: 50% Non-Executive Directors and 50% Executive Directors in the case of a full-time Chairman

• Establishing an audit committee with a minimum of three meetings, three independent directors, a chairman with a strong financial background, the head of internal audit, and the finance directors.

• In charge of assessing the financial performance on a semi-annual or annual basis, hiring and firing auditors, paying them, and assessing the effectiveness of internal control systems.

• Director compensation: The board will decide on the compensation of non-executive directors. Information about the Directors' compensation plan, stock options, and performance incentives will be made public.

• Annual meetings consist of at least four; board procedures. A director cannot chair or serve as a member of more than five committees in any one organisation.

• The management discussion and analysis report needs to contain:

- Industry organisation and developments
- Possibilities and Threats
- Performance reports broken down by segments or products
- The organization's and the industry's outlook
- Threats and worries for the company
- Internal control mechanisms and their effectiveness
- Financial performance discussion

- Directors' disclosure of significant financial and business dealings with the corporation.

• Shareholder information: a brief bio of newly or re-appointed directors, quarterly results to be posted online and reported to stock exchanges, presentation of results for analysis.

• Minimum two meetings each year for the shareholders/investors grievance committee, which is presided over by an independent director.

• The Corporate Governance Report and the auditors' certification of conformity with the corporate governance provisions as per Listing Agreement Clause 49.

RECENT DEVELOPMENT ON THE CODES FOR CORPORATE GOVERNANCE FOR INDIAN COMPANIES

• In August 2002, a committee led by Shri Naresh Chandra was established to look into corporate audit, the function of auditors, and the relationship between the company and auditor.

•The Naresh Chandra Committee's main recommendations are listed below:

o Recommend a list of circumstances that would disqualify someone from taking on an audit assignment, such as a direct involvement with the company, a business tie with a client, or a personal connection to a board of directors director.

o Audit clients are not given access to accounting, internal auditing projects, etc. by audit firms.

o Audit to identify major accounting Policies and disclose contingent liabilities.

o The Audit Committee will serve as the initial point of contact for hiring auditors.

o The CEO and CFO of a publicly traded firm must certify the accuracy and rectification of the annual audited accounts.

o Redefining independent Directors as those with no material ties to the company.

o The makeup of the board of directors

o The sitting fee for non-executive directors is subject to a statutory cap that will be examined. The Indian Parliament has now incorporated these proposals into the Companies (Amendment) Bill, 2003.

• To evaluate the current corporate governance rules, the Securities Exchange Board of India (SEBI) established a committee under the direction of Shri N.R. Narayana Murthy. The main suggestions were:

o Increasing the Audit Committee's accountability o Enhancing the quality of Financial Disclosures

o How the IPO profits were used

o To evaluate and communicate business risk

o A company's whistle-blower policy must be in place and provide employees the freedom to contact the audit committee.

o The controlling company's audit committee will examine subsidiaries.

CENTRE FOR CORPORATE GOVERNANCE – AND THE WORLD COUNCIL FOR CORPORATE GOVERNANCE

In order to promote good governance practises in corporate bodies connected with the World Council for Corporate Governance, a division of the World Bank group, the Centre for Corporate Governance was formed at the Institute of Directors (India). Empowering individuals, fostering and developing innovation, and addressing issues that address conflicts of interest—all of which can place burdens on the enterprise—are all concerns of governance. Increasing company standards can be significantly aided by ensuring transparency in corporate dealings, as was stated in the paper's introduction.

STANDING CONFERENCE OF PUBLIC ENTERPRISES (SCOPE), NEW DELHI & THE CONCERN FOR CORPORATE GOVERNANCE

In 1996, the Standing Conference of Public Enterprises (SCOPE), New Delhi, acknowledged the necessity for corporate governance concerns pertinent to public sector undertakings in India, i.e., those companies in India where the Indian Government has equity of 51% and above. The central/state public enterprises, banks, and other institutions are represented by SCOPE, an eminent professional association. Its goal is to encourage excellence in businesses that get public funding.

THE EFFECTIVENESS AND TOTAL BOARD PERFORMANCE AND CORPORATE GOVERNANCE AS A STRATEGIC TOOL FOR STRATEGY IMPLEMENTATION

A crucial component of corporate governance, the board's strategic thinking determines the effectiveness and overall performance of the board.

CONCLUSION

If one were to summarise, corporate governance's main goal is to raise the bar for corporate world procedures and practises in order to maximise the value of all the organization's stakeholders while also maintaining operational openness. For any firm to be effective and competitive over the long term, understanding and applying corporate governance in letter and spirit is crucial.

REFERENCES

[1] Prasad, Kesho, "Corporate Governance", Prentice Hall: New Delhi, 2006.

[2] Michael A. Hitt, R. Duane Ireland, Robert E. Hoskisson and S. Manikutty, "Strategic Management: South Asian Perspective", 9th Edition, Cengage Learning India, 2012.

[3] A. C. Fernando, "Business Ethics and Corporate Governance", Second Edition, Pearson, 2012.

[4] Vilmos F. Misangyi and Abhijith G. Acharya, "Substitutes or Compliments? A Configurational Examination of

[5] Robert A. G. Monks, "Corporate Governance-USA-Fall- 2004 Reform-The Wrong Way & The Right Way", Corporate Governance: An International Review, Vol. 13, No. 2, pp 108-113, 2005.

[6] Andreas Georg Scherer and Guido Palazzo, "The New Political Role of Business in a Globalized World: A Review of New Perspective on CSR and Its implications for the Firm, Government and Democracy", Journal of Management Studies, Vol. 48, No. 4, pp. 899-931, 2011.

[7] Swami Parthasarthy, "Corporate Governance, Principles, Mechanisms & Practice", Indian Text Edition, Biztantra Publications, 2007.

[8] Corporate Sustainability Report 2013-14. Available at www.tcs.com, Accessed 10 January 2015.

[9] TCS overtakes RIL as most profitable firm. Available at www.indiainfoline.com. Accessed 21 January 2015.

[10] R. Narayanaswamy, K. Raghunandan and Dasaratha V. Rama, "Corporate Governance in the Indian Context, Accounting Horizons", Vol. 26, No. 3, pp. 583-599, 2012.

[11] C. B. Bhattacharya, Daniel Korschun and Sankar Sen, "What really drives value in Corporate Responsibility?", McKinsey Report, 2011.

[12] R. C. Monga, "National Productivity Council, India", The Impact of Corporate Governance on Productivity in India, Impact of Corporate Governance on Productivity, pp. 111- 143, 2004.

[13] Eduardo T. Gonzalez, "Impact of Corporate Governance on Productivity: Asian Experience", Asian Productivity Organization: Tokyo, 2004.

[14] Companies Act 2013, Available at www.sebi.gov.in, Accessed 26 December 2014.

[15] Siva Prasad Ravi, "Corporate Governance in India: Challenges for Emerging Economic Super Power",

Business Studies Journal, Supplement 2, Vol. 6, pp. 1-17,

2014.

[16] Jaya Bhalla, "Corporate Governance: Perception of Executives in India", Review of Management, Vol. 2, No. 1/2, pp. 35-43, 2012.

[17] S. K. Tuteja, "Board Structure in Indian Companies – An empirical survey", Journal of Management Research, Vol. 6, No. 3, pp. 149-155, 2006.

[18] Neeraj Dwivedi and Arun Kumar Jain, "Corporate Governance and performance of Indian Firms: The effect of Board Size and Ownership", Employee Responsibilities and Rights Journal, Vol. 17, No. 3, pp. 161-171, 2005.

[19] Suresh Thakur Desai, "A beginning of Corporate Governance" Chemical Business, Vol. 14, No. 2, pp. 42-44, 2000.

[20] Y. R. K. Reddy, "The ethics of corporate governance: An Asian perspective", International Journal of Law and Management, Vol. 51, No. 1, pp. 17-26, 2009.

[21] SCOPE an apex organization involved in promoting Public Sectors in India. Available at www.indiapublicsector.com/scope.questions. Accessed 10 November 2014.

[22] Scope meritorious award for good Corporate Governance. Available at www.scopeonline.in. Accessed 10 November 2014.