CORPORATE GOVERNANCE MEASURES IN INDIA

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ABSTRACT

The concern for effective governance of the corporate world has been intensified due to the types of impact that the financial frauds create on all the segments of society concerned, more directly in the form of capital invested, loss of employment to thousands of people right from the CEOs to the rung worker, reduction in the confidence levels of the investing public in corporate enterprise, reinstatement of corporate profit figures for the last few years by the companies involved , all resulting in low levels of economic activity at the macro level, throwing nations into some types of a recession. As a consequence of the financial frauds in the corporate world, in which accounting firms of international repute have played a prominent role, the credibility of the accounting profession all over the world is, presently, at stake. The professional Institutes of Accountants in different countries have started addressing themselves regarding the restoration of respect, trust and confidence of the investing public in the accounting and auditing profession. Against this background, the paper aims to examine the overview of Corporate Governance in India.

Key Words: Accountability, Corporate Governance, Disclosure Practices, Financial frauds, listing agreement, Transparency.

INTRODICTION:

The core objectives of any business firm are survival, profitability and growth. The success or failure of the objectives of a company depends on the effective application of essential aspects of its corporate philosophy, namely, 'freedom', 'reach', and 'uncertainty'. In the changing environment of business consequent to the globalization, new strategies have to be developed and implemented by the corporate. They must be consistent with the core objectives of a corporate in a market driven economy. Greater' freedom' and its value help the organization to promote growth and profitability in the long run. Greater 'reach' leads to a systemic search for friends and foes in business and helps to protect profits in the short period. Greater 'uncertainty' results in a strategy of systems thinking and helps a company to strive for survival.

Ten to nineteen years ago, interest in the field of corporate governance was confined to legislators, company lawyers and commentators who were concerned with accountability and financial disclosure of the company. More recently, interest has been escalated and widened, which automatically rise the question why corporate governance is needed.

However, in a rapidly changing today's business environment and consequent to the market- friendly economic reforms, the dominance of Government has been considerably reduced. It has affected the social sector services, which used to be provided by the Government at zero or subsidized costs. In turn, the pressure to provide such services have been shifted to companies as the society expects companies to carry some of the social responsibilities of the Government. On the one hand, the social needs and expectations for responsible corporate citizenship have been substantially growing due to market-friendly reforms. On the other hand, the corporate are caught by the forces of global fierce competition, threatening their survival resulting in continuous pressure to find adequate profitability by any means.

In today's corporate world, no company can afford to ignore and abstain itself from discharging its social obligations emanating from the trust and faith that society at large and stakeholders, in particular, have reposed on it.

NEED FOR CORPORATE GOVERNANCE:

All societies run by human beings need to be properly governed. Wherever power is exercised to direct, control and regulates activities that affect people's legitimate interests, governance is necessary. The following reasons may be listed as of particular significance.

- The increasing scale, complexity and international activities of major corporate groups
- Greater power and activities of institutional investors
- Hostile activities of predator companies
- Renewed responsibilities and power of the regulatory authorities due to company law amendment and new securities trading regulations in various parts of the world
- Recent disclosures and rethinking in insider trading
- Demand for more checks and balances at Board level and demand for separation of CEO's function from that of chairman of the Board
- Calls for greater accountability by companies and their Boards
- Changes in the world of international audit profession
- Developments in accounting standards and corporate regulation
- Emergence of newly corporatized and privatized corporate entities and
- An increasingly litigious standards

CONCEPT OF CORPORATE GOVERNANCE:

Corporate Governance is concerned with the process by which corporate entities, particularly limited liability companies, are governed with the exercise of power over the direction of enterprise, the supervision of executive actions, the acceptance of a duty to be accountable and the regulation of company within the jurisdiction of the country where it operates. Primarily, corporate governance is concerned with the functioning of Board of Directors-its structure ,style, processes, their relationships and roles, activities etc., It is also concerned with the roles of company stakeholders-shareholders, institutional investors or large shareholders, auditors, banks and others.

Corporate governance is a multidisciplinary field of study. It covers a wide range of disciplines – accounting, consulting, economics, ethics, finance, law, and management [1]. The main function of corporate governance is to make agreements that describe the privileges and tasks of shareholders and the organization. In case of disagreements because of conflict of interest, it is the responsibility of corporate governance to bring everyone together. It also has the function of setting standards against which corporations work can be managed and administered. One of the question that come to mind while thinking about corporate governance is - why do different countries follow or do not follow same corporate governance practices. The answer lies in the history of corporate governance, earlier the corporate governance theory was divided in two ways Anglo-American and Continental European. Anglo-American was characterized as short-term equity finance, dispersed ownership, strong shareholder rights, active markets for capital control, and flexible labor markets, where as Continental European was characterized as long-term debt financing, concentrated block holder ownership, weak shareholder rights, inactive markets for capital control and rigid labor markets. None of the countries around the world can follow either pure Anglo-American policies or pure Continental European system. It depends on various factors like globalization, world presence.

HISTORICAL EVALUATION OF CORPORATE GOVERNANCE-INDIAN SCENARIO:

Corporate governance has played a very important role in the present economic condition of India. India successfully started its move towards open and welcoming economy in 1991. From then onwards it has seen an amazing upward Corporate Governance ―If India wants to attract more countries for foreign direct investments, Indian companies have to be more focused on transparency and „Shareholders value maximization". Even though corporate governance practices can be backdated to as early as 1961 around the world, India was lagging behind. It was not until 1991 when liberalization took place and corporate governance established an international context. The most important initiative of 1992 was the reform of Securities and Exchange Board of India (SEBI). The main objective of SEBI was to supervise and standardize stock trading, but it gradually formed many corporate governance rules and regulations. The next major change was formation of Confederation of Indian Industry (CII) in 1996, which developed the set of laws for Indian companies as to initiate the act towards corporate governance. Then two committees Kumar Mangalam Birla and Narayan Murthy under Securities and Exchange Board of India started laying the groundwork for formalizing the best practices on corporate governance. Based on suggestions from these committees, Clause 49 was introduced as part of the listing contract for the companies listed on the Indian stock exchange. However, due to scandals like Enron, Satyam, WorldCom etc. forced the clause 49 to be reformed to incorporate and overcome the problems that caused these companies to collapse and shatter the economies of the respective countries. Clause 49 of the listing agreement of Indian stock exchange took effect from 2000 to 2003. It contained all the regulations and requirement of minimum number of independent directors, board members, different necessary committees, code of conduct, audit committee rules and limits, etc

LITERATURE REVIEW:

As far as corporate governance is referenced; many studies are existing recitation to the compliance status of companies with view to specific corporate governance guidelines. The corporate governance codes and their iterative development are similar in developing and developed countries, however, the degree of compliance is found different between the countries

Mishra S. and Mohanty P. (2014) in their study examined the corporate governance issues in India in order to establish the relationship between corporate governance and financial performance using a sample of 141 companies belonging to the A group stocks listed in the Bombay Stock Exchange of India covering 18 industries. They developed a composite measure of corporate governance comprising of three indicators-legal, board and proactive indicators. The results of the multiple regression performed step-wise using ROA as a proxy for firm performance revealed that the board indicators (CEO-duality, board size, board composition, number of board meetings, Frequency of attendance in the board meetings) and proactive indicators influence the firm performance significantly. The results concluded that composite corporate governance measure is a good predictor of firm performance.

Patel and Sondhi (2014) [8] consider the major changes anticipated by the Companies Bill, 2012 as comparing to the 1956 Act and observed during their study that the not all Indian listed companies comply with the provisions stated under the Company Bill, 2012 and many of them are yet to comply with these changed provisions.

Vithalani (2014) [12] studied corporate governance practices of seven Maharatna Companies in India and summarized that all the seven companies complied with the corporate governance disclosure practices with regards to guidelines given by SEBI under Clause 49 to a massive extent.

Sahu T. K. and Manna A. (2013) empirically investigated the effect of corporate board composition and board meetings on performance of 52 Indian manufacturing companies listed in Bombay Stock Exchange over a period of 5 years (2006-2011).They represented Board composition by board size, number of executive directors, board independence, and Chairman's identity. Corporate performance is measured through Net sales, Net Profit, Return on Capital Employed, Earning per share, Tobin's Q, Economic value added and Market value added. Multiple regression Ordinary Least Square model results indicated that board size and board meetings have a positive impact on corporate performance whereas the independence of the board and presence of non-executive chairman in the board has negative impact whereas the proportion of executive directors in the board was found insignificant

CORPORATE GOVERNANCE MEASURES-INDIAN SCENARIO:

In order to improve the quality of corporate governance in publicly held companies, the following measures place a great of accountability squarely on the shoulders of CEO's of these companies in the Indian corporate sector.

Board Committees: The corporate failure in the past has in fact, led to emphasize the need for increasing the effectiveness of the board through the use of the Board committees. In order to ensure greater depth of understanding, committees of the Board are an effective way to raise standards, provide the required level of reassurance and obtain greater coverage by directors. The three most important committees, which are normally constituted, are (a) audit committees, (b) remuneration committee, and (c) nomination committee

(a) **Audit committees:**

An audit committee is formally set up by the Board, usually consisting of the independent board members and reporting to the board. It acts as a link between the board and the outside auditors. The members of the committee discuss the scope of the audit, explore matter that the auditors raise about the Management systems and controls, and are involved in resolving any disagreements that might occur on the form and content of the published financial accounts. The audit committee makes recommendations on audit fees and /or the reappointment or change of auditors. This is one of the most important committees for providing checks against the executives with the ability to review systems and internal control and particularly to review objectively, the progress made.

(b) Remuneration committee:

Good governance has a major role to play, largely exercised through the remuneration committee, which needs to be, and seen to be independent and professional. The committee is made up of independent members as the experience of the outside independent directors regarding compensation trends in others industries and companies would be valuable. The most important role of the remuneration committee is to have an appropriate reward policy that can attract, retain and motivate directors to achieve the long-term goals of the company. In India, formation of remuneration committee is non-mandatory requirement as per Clause 49 of the Listing Agreement.

(c) Nomination committee: This is the third important committee of the board, which is made up of outside independent directors. It is usually chaired by the company chairman and is the vehicle by which new non-executive directors are brought for selection. The Indian regulatory bodies did not make it a mandatory practice to constitute nomination committee in the listed companies.

(d) Accounting standards:

There is a need for working towards global harmonization of accounting policies.

(e) Transparency & Disclosures:

Corporate Governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation and governance of the company. Important disclosure should include financial and operating results of the company, company objectives, major share ownership and voting rights, members of the board, key executives and their remuneration, materials issues regarding employees and other stakeholders, government structures.

CONCLUSION:

The financial frauds in developing countries like India are becoming so common due to imperfect capital markets and inadequate corporate governance. As a consequence of these financial frauds, accounting firms of international repute have started addressing themselves as to how best to restore the respect, trust and confidence of the investing public. Obviously, the concern for Corporate Governance has been intensified. The Indian model of Corporate Governance should be based on how capital is raised here. Corporate Governance is essential for corporate success. Specific issues, which are significant, are, building accountability within the corporation, service management, performance appraisal, sanctions and incentives removing constraints for reforms etc., Good Corporate Governance can be ensured only through self management based on core values of being responsible corporate citizens.

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