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ROLE OF CORPORATE GOVERNANCE IN SUSTAINABLE ECONOMIC DEVELOPMENT OF INDIA- SOME CHALLENGES DEVELOPMENT IN INDIA

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Abstract

In the post LPG development scene corporate governance is gaining prominence as one of the effective mechanism for sustainable economic development of all economies world over. Today Analysts and Investors view that companies with **poor governance often perform less, trade lower, contribute less to economy and lead to unethical corporate practices, bribes & corruption,** scams and financial irregularities in all countries. Ineffective corporate governance leads to unsustainable consumption of natural resources. to avoid these scams and financial irregularities, many companies have started corporate governance. Corporate governance mechanism promotes the development of **strong financial system** in the economy. Strong financial system has positive effect on economic growth and poverty reduction. However corporate governance mechanism in India and other countries is facing some challenges like domination of family members in the boards, Financial Illiteracy of investors, erosion of Ethical & Moral values, Increasing Corruption, Bribes & Financial scams, Inter-Agency disputes in the name of reform efforts. These challenges can be met through measures like stricter observance of code of ethical & moral values, effective implementation of pillars of good governance -accountability, Transparency, Disclosure, Fair, Impartiality, Participation and Efficiency in their corporate governance mechanism and appointing audit committees, ethical committees, Remuneration committees & Nomination committees. SEBI should be given more authority and rigorous punishment being given to corporate entities which do not comply with the law.

Keywords: Governance, corporate governance, sustainable Economic Development.

Introduction

The effective governance is essential for the sustainable development of economies. In globalised economic scene the economies world over are becoming corporate centric economies where the corporate entities are financially so strong to influence the government policies and can get the rules passed in favour of them, Corporate Governance being part of economic governance is one of the important pillars of good governance has assumed greater significance in the globe especially after the financial crises which disturbed the world economy. Corporate scandals and scams are the root cause for major economic crises took place world over.

In the post LPG era many scams, frauds and corrupt practices have taken place in India & world over. Misuse and misappropriation of public money in the stock market, banks, financial institutions, companies and government offices are happening everyday in India and worldwide & are the result of bad governance. Today Analysts and Investors pay more attention to corporate governance, in addition to company fundamentals, than ever before, and studies showed that companies with poor governance often perform less, trade lower, contribute less to economy and lead to unethical corporate practices, bribes & corruption in the countries. Ineffective corporate governance leads to unsustainable consumption of natural resources. In order to avoid these scams and financial irregularities, many companies have started corporate governance.

Conceptual Clarity

Governance- "governance is the manner in which power is exercised in the management of a country's social and economic resources for development. Governance means the way those with power use that power." (ADB)

Corporate Governance-Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed.

Economic Development- The economic development is the process of achieving economic well being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life.

Regulations for Corporate Governance in India

Many financial scams, frauds and corrupt practices in stock market, banks, financial institutions, companies, misuse and misappropriation of public money in government offices are happening in India forced the setting up of corporate governance in India. The Indian regulatory framework relating to corporate governance covers -a)the Indian Companies Act, 1956 now Companies Act, 2013, b) the regulations/ directives that are issued by the Securities and Exchange Board of India ("SEBI"), c) Ministry of Corporate Affairs ("MCA") to administer the Companies Act, d) the Company Law Board to enforce the provisions of the Companies Act, and e) Regulators such as the Reserve Bank of India ("RBI") and the Insurance Regulatory & Development Authority ("IRDA"). Clause: 49 of listing agreement is the most significant recent development in Indian legal framework relating to corporate governance.

Role of Corporate Governance

Effective corporate governance is playing a crucial role in sustainable development of a nation. John D Sullivan, one of the earliest writers on governance asserted, "In developing economies one must look to supporting institutions as for example, shoring up weak judicial and legal systems in order to enforce contracts,and protect property rights in a better way." Shareholders are protected primarily by non-legal mechanisms such as contracts, market forces, and norms of good practice that directors and officers follow. Corporate governance not only protects Shareholders rights but also protects economy as the corporate entities are dominating the economic scene of a nation world over.

The role of CG in Economic development is better understood from the words of Sir Adrian Cadbury in 'Global Corporate Governance Forum', World Bank (2000): "Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align, as nearly as is possible, the interests of individuals, corporations and society". The role of corporate governance is evidenced from the followings:

• **Promotes development of strong financial system in the economy**-Corporate governance and economic development are interdependent, intertwined through the process of economic reform. Effective corporate governance mechanism promotes the development of strong financial system in the economy. Strong financial system has positive effect on economic growth and poverty reduction

• **Good corporate governance contributes sustainable economic development**:

Good corporate governance enhances the performance of companies and helps the corporate to have access to outside capital. • Stress on Corporate Social Responsibility- social responsibility is one of the important elements in governance mechanism. The corporate governance mechanism insists that the Board of Directors have to protect the interest of all stakeholders-the shareholders, customers, employees, suppliers, local communities, the government and society at large.

• **Builds trust and confidence**-Good Corporate governance mechanism reduces distrust among various stakeholders leading to reduction of legal costs, improved social &labour relations.

• **Reduces cost of capital (K_0) & improves the value (V) of corporate** -Effective Corporate governance mechanism reduces cost of capital (K_0) resulting in improvement of Return On Investment (ROI) and enhances the market value (V) of corporate.

• **Reducing Scams**- Good Corporate governance through Transparency, Impartiality, Accountability principles avoids scams, frauds and corrupt practices in stock market, banks, financial institutions & companies, misuse and misappropriation of public money in government offices.

• **Globalization**- in the post LPG international business environment almost all big companies are doing business in the global market. To be a part of global market they should have effective corporate governance mechanism & follow foreign rules and regulations to attract foreign investor and foreign customers.

Corporate Governance Challenges

There are some practices prevalent in the market and in our society which are posing challenges to effective corporate governance in the country. The major challenges are-

• Domination of family members in the board and just name sake inclusion of independent directors

• Lack of professionalism in top management

• Erosion of ethical & moral values in board members, CEO's & managers

• Increasing Corruption, bribes & financial scams

• Lack of respect for shareholders and low financial disclosure

• Inter-Agency disputes in name of reform efforts

• Weak compliance to laws and weak enforcement

• Indian investors are also reluctant to access the courts by their financial illiteracy & delays in adjudication

Suggestion

In all economies social, economic and political obstacles are coming in the way of effective corporate governance leading to bad governance of corporate bodies. The bad governance paves the way for bribes, corruption, scams, scandals both in public& private sectors of economy. These bad practices increase the cost of & reduce the benefits from development programmes to the corporate directly and to the society indirectly. Hence there is a need to take some measures

• The board members, CEO's & managers should observe code of ethical & moral values

• Bring proper checks and balance system over managerial rights

• Make the monitoring system more effective through proper accountability

• Corporate entities should strictly observe the Transparency, Disclosure, Accountability, Fair, Impartiality, Participation and Efficiency in their governance mechanism.

• Ensure independent and transparent process of evaluation of performance of board members

• Include more independent directors and the independent director should be made the chairman of the board

• Appoint audit committees, ethical committees, Remuneration committees & Nomination committees

• Proper and transparent auditing system to control financial irregularities and frauds

• Educating all the stakeholders about their rights

• Corporate entities should observe their social responsibilities

Conclusion

For good corporate governance law enforcement agencies, the board, CEO's, Managers, shareholders, suppliers, creditors are the vital elements. All these stakeholders have act in responsible manner to make corporate governance effective. The effective CG can only protect the interest of all stakeholders. Monitoring system should be made efficient& effective, internal audit system be made transparent, Board, CEO's, managerial people should be ethical and efficient and should act in a socially responsible manner. SEBI should be given more authority and rigorous punishment be given to corporate which do not comply with the law.

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