RECENT TRENDS IN CORPORATE GOVERNANCE

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Abstract

Corporate governance has been a primary issue in developing countries. It has gained tremendous importance due to liberalization and deregulation of industry and business. The concept of corporate governance came in 1980s when several companies collapsed worldwide. After such a huge destruction in the industry in international level and in India, SEBI, RBI and Ministry of Corporate Affairs took sincere efforts to bring the changes in the operation of board of directors, compliance with code of corporate governance, shareholder's rights and responsibilities, internal control and company's management. Corporate governance standards for listed companies are regulated by the SEBI through listing agreement of stock exchange. Corporate governance should be an integral element of management and business practices. Corporate governance should ensure dignity and respect in all types of transactions and functions of a company. Corporate governance is a continuing journey. It must keep on evolving in order with changing nature of business and economics.

Key words: Corporate governance, internal control, company management, etc.

1. Introduction

Corporate governance denotes the process, structure and relationship through which the board of directors oversees what the management does. It is also about being answerable to different stakeholders. Corporate governance deals with laws, procedures, practices and rules that determine a company's ability to take informed managerial decisions. There is a global consensus about the objective of good corporate governance and long-term shareholder value.

2. Objectives of corporate governance

- To formulate adequate disclosures and make effective decision in achieving the objectives of corporate.
- To have transparency in the business transactions.
- To uphold statutory and legal compliance.
- To protect the shareholders interest in the corporate.

3. Requirements for corporate governance

- Composition of board of directors is an essential requirement of good corporate governance.
- Audit committee should be formed as per norms of the Companies Act, 2013.
- Board meetings should be held once in a year. There should not be a gap of more than four months between two board meetings.
- There should be a separate section in the annual report of the company containing the details regarding compliance of corporate governance.
- Presence of far-sighted goals and a mission to grow the organization.

4. Need for corporate governance in India

Before the introduction of Companies Act, there were lots of problems arisen due to lack of proper corporate governance in most of the corporate entities. To evaluate certain issues that arise in corporate, the need of corporate governance has become one of the best factors to prevent the corporate entity from mischief and fraudulent acts.

5. Principles of corporate governance

In order to sustain its flexibility in the market, every corporate entity should have certain principles to be followed in day to day functioning of the corporate.

Transparency: This is an essential principle that the corporate should follow while running its businesses in an large market where more investors strives to know the liquidity of the company and start investing in that company's shares. There should not be any unpublished information about the company to bring disappointment about the company in the minds of the investors.

Accountability: The persons who are in the top management should be held responsible for the decisions taken and acts performed by them.

Independence: There should be independency in the top management in taking important decisions. The board of directors should act on their own footings without involving outsiders to take part in the management activities as it leads to confusion in the management.

6. International scenario of corporate governance

During recent meeting of the Cyprus Bar Association's Committee for Company Law in Nicosia on 3rd June 2015, its members recognized the urgent need for the comprehensive and modernization of company law and governance. The need for reform had been previously recognized and the issue had also been raised in Parliament. In several instances, litigators and practitioners have come across contradicting verdicts and decisions in relation to similar issues due to the gaps and ambiguities contained in the Greek version of Law. However, since the enactment of the Company Law, Cyprus has followed its own path and on several occasions has amended the law based on its own needs. The committee members agreed that most of the amendments, especially those which are enacted recently. As it came into the discussions for professionals and it is observed that the company law needs much improvement.

7. National Company Law Tribunal

One of the most legal reforms in India is the enactment of Companies Act, 2013 with the objective of tuning the Indian Company Law with the global standards. The provisions of the Companies Act, 2013 have been notified in a phased manner as out of 470 sections only 283 have been enforced by April 1, 2014 and the remaining provisions are yet to be notified. Most of the provisions which are still to be notified are dependent based on the establishment of NCLT, which is likely to be notified shortly. The Act introduced vital changes in the Company Law in India, particularly in relation to accountability, disclosures, investor protection, corporate governance related provisions. It has been noted that the amended Act has been weighed down with many drafting errors and containing a range and impractical provisions which are creating lots of problems in its implementation. Further, in view of the extent and scope of changes, shareholders took some time to come up with the new regime, with new provisions and stagger upon some difficulties in the process. Due to difficulties, the stakeholders made several representations from time to time with respect to the difficulties faced by them in implementation of the new Act.

8. Formation of Company Law Committee

To remove such difficulties, the Ministry of Corporate Affairs has constituted the Company Law Committee under the chairmanship of the Secretary, Ministry of Corporate Affairs to recommend on the issues relating to implementation of Companies Act, 2013. The representatives from RBI and SEBI also joined as the member of the CLC. The committee after getting suggestions, through public consultation process and from all other shareholders, industries and other regulatory bodies submitted its report recommending changes in the Act and rules. More number of amendments has been proposed by the CLC and less amendments to the rules as well. Most of the significant areas of the Act have been proposed to be changed by the CLC such as definitions, acceptance of deposits, rising of capital, accounts and audit, management and administration, CSR, provisions relating to corporate governance and offences and penalties.

9. Benefits of corporate governance

- Corporate governance helps in incorporating the companies online.
- It is helpful in simplified and easy mode of filing forms/returns.
- It is helpful in registering of charges and verification of the same anywhere and at anytime.
- It is helpful in having total transparency through e-governance.
- It is helpful in building up a strong database for corporate operations in India.
- It is helpful in making timely redressal of investor's grievances.

10. Suggestions

To improve corporate governance, every management has to follow certain strategies. First, increase diversity among the members of the corporate entity. Secondly, appoint competent board members to run the management without any disruptions, Third one is that ensure timely information to the management when there is any circulars given by the regulatory bodies and RBI from time to time to avoid any interruption in the management activities, the next one is that prioritize the risk management, in this the board has to make effective risk management study about the risks which may incur and necessary steps would be taken to prevent the management from such risks. The last one is that evaluate board performance. In this level, after implementing the above four strategies, management should make an effective evaluation to check the performance of the management, whether it is running properly in the said manner and if there is any defalcations that would destroy the corporate management should be checked prior to occurring and correct it as soon as earlier before it leads to a difficult situation.

11. Conclusion

The rapid increase in the practice of corporate governance, the stronger is the corporate in the eyes of the shareholders of the company. The Companies Act, 2013 envisages the management to practice good corporate governance with recent amendments laid down by Ministry of Corporate Affairs from time to time. The new Companies Act, 2013 is very supportive and effective in framing good corporate governance policies in the management. It also protects the investors and the members from the hindrances which are arising in daily life of corporate. Corporate governance helps in making disclosure regarding the performance in its corporate report.

12. Reference

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