ADVANTAGES OF CORPORATE GOVERNANCE FOR INDIAN ENTERPRISES

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Introduction

Corporate governance is a key ingredient for the success of businesses of any size, especially when the organizations employ professionals. A poor corporate governance policy has the potential of ruining the business and in worst cases, completely shut down the operations. The other scenario is when the company doesn't have a policy in place. This situation makes the establishment quite vulnerable as it may be unknowingly doing things it is not supposed to do. Isn't it a better idea to havean apt corporate governance procedures, which can help organizations stay out of hot water while they focus on profit making part of the business?

What is Corporate Governance?

Let's first understand what exactly is corporate governance? If one Googles it or go through various books, journals, etc. 'n' number of definitions can be found, some so intricate that the person may end up struggling to understand it. So, let's define it in simple terms. *Corporate governance consists of rules that direct the roles and actions of key people rather than the processes*. Unlike other simple rules and procedures such as adhering to the dress code or reimbursement of travel bills, corporate governance focus on creating better management, thereby helping to avoid legal or ethical problems. Few examples include setting rules for using corporate funds and other material for personal use; conditions to serve on a board of directors; how to avoid conflicts of interest; notifying owners, investors and partners of key meetings and decisions; disbursing profits etc.

An important thing to note here is that people tend to associate corporate governance with public companies or large private enterprises. However, it is clearly not the case. Even small businesses also known as SMEs can benefit from this practice.(Ashe-Edmunds, 2018)

Benefits of Corporate Governance Practices

1. **Improved Reputation and Perception** – Whether the business is in India or elsewhere, a critical factor that directly affects its growth is reputation it commands in the market. In turn, it helps in building the perception, which acts as a catalyst for the growth of the organization. If the business is successful in creating a positive perception in the market, numerous things become a smooth ride, if not easy. When the company has a robust corporate governance policy in place, it can successfully attract more stakeholders to work with it. These stakeholders can include a quality workforce ready to contribute in the growth of the business by their sheer talent, investors ready to lend the money needed for the expansion, government suppliers, charitable institutions, suppliers, media etc. The practice of sharing internal information with the stakeholders brings loads of benefits. Primarily, it helps in setting up a transparent work culture that instills confidence in the stakeholders' minds.
2. **Increase in Transparency** – Companies understand that having auditors vouch for the financial results is not enough. Therefore, companies enact procedures to increase the transparency in order to keep the regulators from stepping in and mandating a costly regulatory framework. The problem is, when the regulators enact transparency-increasing measures instead of the companies doing so voluntarily, the profits fall, executive compensation rises and the rate of CEO turnover increases. The enactment of Sarbanes-Oxley has demonstrating this, punishing both publicly-traded and closely-held companies, as internal audit controls of larger companies often require testing the integrity of suppliers and other companies with whom they do business.(NIBUSINESSINFO)
3. **Reduction in Run-In with the Law** – It is essential for every business establishment to stay compliant with the local, state and national rules & regulations. E.g. If the state law says that 20% of the total workforce must be hired locally, it is imperative for the company to have a policy to adhere to this law. Similarly, there can be numerous other things that should be taken care off or else fines, penalties and lawsuits may follow.
4. **Decreased Conflicts and Fraud** – The human behavior is complex and it is quite difficult to predict the future course of action that might be adopted by an individual. However, by the implementation of corporate governance policy, conflicts of interest and rampant fraud can be avoided. E.g. the company might draft a conflict of interest statement that top executives must sign, requiring them to disclose and avoid potential conflicts, such as awarding contracts to family members or contracts in which an executive has an ownership interest. The company might forbid loans to officers and family members or the hiring of family members. External audits or requiring checks over a certain amount to be approved and signed by two people help reduce errors and fraud.
5. **Role Clarity** – In order to sustain in the competitive world, businesses strive and often introduce change in their work culture and environment. One major step towards it is to move from family owned to professionally managed organization. Even if not so, it is essential to have a clarity in the roles of owners and the management people. By defining the roles, the organization

move towards quick decision making as it allows managers and owners to decide which hat to wear depending on the issues at hand. The other long term benefit of this measure is confidence and trust building between the employees and the owners.

6. **Decisiveness** – Every organization faces numerous internal as well as external issues. Obviously, the timely resolution is the top most priority, however, resource allocation to do so is a strategic decision. As the famous saying goes, "Too many cooks spoil the broth", the other crucial factor is the capability of the resource. It helps the management take decision to allocate the apt resource at the right time during the time of crisis or opportunities.

7. **Retention of Employees** – Whether you are a small business or a large enterprise or a startup, attracting the best talent and retaining them is a herculean task.Motivation is the key here! If the roles and responsibilities are clearly defined, vision and mission communicated to all, and the employee feel secure about their future, the turnover rate decreases. Once the organization is successful in doing so, attracting the new talent in case of expansion is usually a smooth ride.

8. **Better Rapport with the Bank**– The implementation of corporate governance within the organization enables robust and regular financial and management reporting. This systematic approach results in building confidence with the banks and / or investors. After all, who will not invest in a healthy organization!

9. **Increased Profit Margins** – This is no brainer! Once the organization has a sound corporate governance policy coupled with a good performance, the organization achieves many objectives. The employees are happy, investors are confident, and the market reputationimproves exponentially. This provides an opportunity for the management to make better decisions that can increase profit margins and cut operating costs.(McRitchie, Corporate Governance In India, 2015)

10. **Reputation Building with Corporate Social Responsibility** – Everyday more and more organizations are aligning their business objectives with the social and / or environmental responsibility they want to usher. The benefits of being socially responsible is bit difficult to quantify but in the longer run, various stakeholders benefit from it in various ways. Few benefits are:

a. It helps to comply with the regulatory requirements.
b. Active involvement with the local communities are good opportunities to leverage positive press coverage.
c. Good relations with the local communities / authorities makes doing business easier.
d. By engaging directly with the people, the company gets lots of business intelligence data to improve current offerings and create future products and / or services.
e. It reduces the risk of sudden damage to the reputation as people's trust is with the organization and investors understand it as well.

Importance of Corporate Governance in India

In a growing economy, it is quite important to protect the interests of investors and make sure that the compliance to reporting financial data is being done. At the same time, it is imperative to fix the responsibility and accountability of board of directors and management. In India, SEBI realized the importance of Corporate Governance and appointed numerous committees.

If the relevance of the corporate governance is assessed in the Indian context, one will find that it has taken the centre stage in the national agenda.The Satyam scandal also known as India's Enron showed the pressing need to implement corporate governance policies in India. Probably the biggest business scandal in the country's history, it wiped off billions of shareholders wealth. The scam not only exposed the shortcomings but also threatened the foreign investment in India.(Mukher)

Few important things to note in the Indian scenario are:

1. It has been observed that companies in India raised capital from the market at inflated rates by projecting wrong picture of their performance and profitability. Due to this the investor suffered.
2. One of the important aspects of corporate governance is to take due care of the investors' issues. Kumar Mangalam Birla Committee on corporate governance found that not enough attention was being paid by the companies in this regard.
3. A good corporate governance implementation entails corporate firms to attract capital and provide good returns by functioning efficiently. However, after the liberalization, there is a lengthy list of failures of corporate due to lack in transparency.
4. Various studies have shown that foreign companies observe the performance of the Indian companies closely before entering into any sort of partnerships or deals. Therefore, it is essential to have sound corporate governance practices in place and work according to them so as to maintain good reputation and deliver as promised. The age of globalization offers numerous chances of expanding the businesses but it is necessary to follow the standards and be compliant to win the confidence of foreign investors.
5. Last but not the least, it has a direct impact on the stock market of India where millions of people have invested their hard earned money. As it an indicator of country's economy, it is important to protect the interests of the investors. An issue to tackle here is insider trading which can only partly be prevented by the corporate governance but largely by the integrity and self-regulation.

The highly competitive market and need for growth has increased its importance exponentially. In order to grow and prosper, the organizations have realized it is their responsibility to safeguard the interests of all the stakeholders. However, the implementation is in the rudimentary stage, and is mostly confined to public undertakings. The private sector has realized the importance of corporate governance but the application is governed by the market pressure and still not entrepreneur driven.(Talathi)

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