Corporate Governance in India

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ABSTRACT: Although the topic has been brought to media attention by recent high-profile corporate governance scandals in developing countries, the subject has always been central to finance and economics. As it is key to financial and economic growth, the problem is especially important for developing countries. Recent research has shown that financial development in a country, de jure and de facto, is largely dependent on investor protection. India has one of the best corporate governance laws with the legacy of the English legal system, but poor implementation along with socialist policies of the pre-reform era has impacted corporate governance. The Indian corporate landscape is marked by concentrated ownership of shares, pyramiding and tunneling of funds among group companies. With the DFI candidate directors unable or unable to fulfill their oversight duties, boards of directors have also been mute spectators. However, since liberalization, serious efforts have been made to revise the system, with the SEBI instituting Clause 49 of the Corporate Governance Listing Agreements. Indian banks' corporate governance is also witnessing a phase of transition with a shift towards more market-based governance.

KEYWORDS: Corporate; Economic; Finance Governance; and Investor

INTRODUCTION

Companies pool money both in the domestic and in the foreign capital markets from a wide investor base. In this sense, investment is essentially an act of trust in the skill of the management of a business. There must be a structure whereby managers are entrusted with roles and responsibilities in relation to the direction of company affairs in order to handle the affairs of a corporation and to function in the best interests of all at all times[1]. Corporate governance is a framework that makes management accountable to stakeholders for the company's effective management. The morals, ethics, standards, parameters, actions and conduct of the organization and its management are also concerned with corporate governance. Three basic interrelated divisions revolve around the underlying corporate governance concepts. (a) Honesty and justice (b) Openness and responsibility (c) Accountability and accountability.

Corporate governance, according to the Indian Industry Confederation (CII), deals with regulations, procedures, practices and tacit rules that decide the company's ability to make management decisions vis-à-vis its claimants, in particular its shareholders, creditors, consumers, the state and employees[2]. Corporate governance consists primarily of two aspects, i.e. a long-term partnership that has to do with controls and balances, employee compensation, and management-investor communications. A transactional relationship involving matters relating to disclosure and control is the second aspect. Strong corporate governance, in other words, is literally 'good company'. Corporate governance practices are the practices practiced by the Board of Directors of a listed company in order to meet the standards of all stakeholders (i.e. shareholders, staff, creditors, consumers, government, regulatory authorities and society at large)[3].

Development of Concept of the Corporate Governance in India

Corporate Governance is the latest golden word coined by the Industry Association On Confederation of Indian Institute in the corporate sector in the late 1990s, which was the first initiative in India to be adopted by Indian companies as a voluntary measure. A number of voluntary guidelines have been outlined to implement best-in-class corporate governance practices in listed companies that touch on the four cornerstones of fairness, openness, integrity and accountability in managing the company's affairs. The second big initiative was adopted as Clause 49 of the Listing Agreement by the Security Exchange of India (SEBI). The third main initiative to effectively enforce corporate governance was taken by the Naresh Chandra Committee and the Narayana Murthy Committee, who, from the point of view of the company's shareholders, investors and other stakeholders, envisaged the Corporate Governance model functioning in companies[4].

Due to the sincere efforts of several committees appointed by the Ministry of Corporate Affairs (MCA) and the SEBI, corporate governance guidelines, both mandated and voluntary, have evolved since 1998. The real shift in the corporate sector could be felt by the implementation of the 2009 Mandatory Corporate Governance Voluntary Guidelines to be adopted by companies listed on the stock exchange pursuant to Clause 49 of the Listing Agreement, including mandatory codes to be followed by companies belonging to boards of directors, audit committees and various disclosures in relation to related parties. The final approval of corporate governance practices in the effective management of the company can be seen as an introduction to new significant provisions incorporated in the Companies Act, 2013 in the form of independent directors, female board directors, corporate social responsibility and compulsory compliance with Secretarial Standards provided by the Institute of Company Secretaries of India in conjunction with the Secretariat of India[5].

Role of corporate governance

Corporate governance is usually said to concentrate primarily on the interests of shareholders, the actions and productivity of managers and the performance of directors. Encouragement of the confidence of investors is stressed further. In order to increase the efficiency of investment decisions, good corporate governance helps. There was a need to implement the competition regime with the idea of corporate governance being introduced into it as the market is being strengthened and also the competition regime in most countries. A number of voluntary guidelines have been outlined to implement best-in-class corporate governance practices in listed companies that touch on the four cornerstones of fairness, openness, integrity and accountability in managing the company's affairs. The second big initiative was adopted as Clause 49 of the Listing Agreement by the Security Exchange of India (SEBI). The third main initiative to effectively enforce corporate governance was taken by the Naresh Chandra Committee and the Narayana Murthy Committee, who, from the point of view of the company's shareholders, investors and other stakeholders, envisaged the Corporate Governance model functioning in companies[6].

Basic principles of corporate governance?

The principle of corporate governance was initially implemented to discourage entrepreneurs and owners from performing unfair actions against the company. The central principle of why corporate governance has been implemented remains the same, although certain adjustments have been made to incorporate all the ways in which a business can represent itself in order to promote the trust of investors and other stakeholders[7]. Depending on the region, regulator and stock exchange, the main corporate governance principles vary. Most codes of governance, however, contain some of the same characteristics.

- Independent leadership: It is important to provide independent leadership to comply with corporate governance standards, such as an independent chairman or an independent director. The manager, who invites friends and relatives to a board seat, runs the risk of nepotism and bias. For this purpose, SEBI provided the companies with guidance stressing the need for independent leadership.
- Transparency: Transparency is considered one of the most vital corporate governance priorities for companies to create a business process such that all the activities of the company remain traceable. The other factor involves creating a business policy that is transparent and easy to understand.
- Accountability: The principle of accountability states that anyone who is influenced by the decisions taken by the company must be accountable to the company.
- Fairness: The company is committed to protecting the interests of shareholders and ensuring equal treatment of shareholders. The effective redress process developed by the Board of Directors to protect the interests of shareholders should be in place.
- Rule of law: The company must comply with the legal structures defined in the case of India by regulatory bodies such as the Securities and Exchange Board of India (SEBI). There are penal provisions for the violation of the rules and guidelines laid down by these regulatory bodies levied by them.

Legal Framework pertaining to Corporate Governance

There are numerous acts in India with provisions relating to corporate governance. In compliance with international law, these provisions are laid down. They are the following:

(i) The Companies Act, 2013

Many requirements related to good corporate governance are included in the new Companies Legislation, such as Board of Directors Composition, Admitting Woman Director, Training and Appraisal Directors, Internal Audit, Risk Management Committee, Compliance Centre, etc. In establishing a strong framework for corporate governance, all these aspects of the new Company Law are instrumental[8]. The following are some of the significant provisions relating to corporate governance under the Companies Act, 2013: -

1. Section 134, which includes the attachment of a report by the Board of Directors to each financial statement containing all the specifics of the matter, including the statement containing the liability of the director.
2. Section 177, which allows the Board of Directors to appoint an Audit Committee of each public company or some other class of committee. It also offers the way for the committee to be constituted.

(ii) SEBI (Securities Exchange Board of India)

SEBI has come up with detailed Corporate Governance Standards to ensure good corporate governance. For example, according to the new regulations, businesses are required to seek shareholder approval for RPT (Related Party Transactions), it has set up a whistle blower system, a strong requirement to include at least one-woman director on the board, and it has also established pay package disclosures[9].

(iii) Institute of Chartered Accountants of India

It was established by the Chartered Accountants Act, 1949. It issues accounting standards for financial information disclosure. Section 129 of the Companies Act, 2013 provides that a company's financial statements comply with accounting standards.

(iv) Institute of Company Secretaries of India

It was established by the Company Secretaries Act, 1980. It is an agency responsible for controlling and improving the profession of company secretaries in India. As per the provision of the Companies Act, 2013, it issues secretarial standards. Section 118(10) of the Companies Act states that all companies shall comply with the secretarial standards set by the Institute of Secretaries of Companies of India with regard to meetings of the General and Board of Directors[10].

CONCLUSION

The higher the standard of corporate governance, the stronger the company is in the eyes of the company's shareholders. Independent and active directors are those who instill and contribute to presenting the organization as having a good outlook. In terms of funding, investors are also looking to identify businesses that have better corporate governance. The standards of corporate governance in India are intended by businesses to audit their working culture and give a more optimistic outlook to the shareholder community as their acts have moral and legal consequences.

The new requirements were very balanced and creative after the Companies Act 2013 came into the picture. They also helped to reform Indian market creation in compliance with international standards. Shareholders are active in the company's decision-making and different safeguards have been placed in place to ensure that the interests of the shareholders and of the company as a whole are not sidelined. Corporate governance absorbs the much-needed accountability of companies. It therefore puts India ahead of the world's emerging economies in the race.

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