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Corporate Governance Practices in India: Problems & Importance

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Abstract:

The paper seeks to explore the impact of corporate governance (CG) measures on the performance, importance and problems from the viewpiont of India.The focus on corporate governance has increased since the past few decades in most countries around the world, especially in the wake of corporate collapses in early 2000s. These corporate collapses have leads to the growing volume of academic and practical research in this area. Corporate governance refers to the set of rules and practices that ensure the effective and corporate efficient management of a company. In India, the Companies Act, 2013 lays down the legal framework for corporate governance, which is overseen by the Securities and Exchange Board of India (SEBI) and other regulatory authorities. Some of the key corporate governance practices in India include: Board of Directors: Companies in India are required to have a board of directors that oversees the management of the company. The board is expected to act in the best interests of the company and its stakeholders. Independent Directors: At least one-third of the board of directors of a listed company in India must be independent directors. These directors are expected to provide unbiased and objective *advice to the board.* Audit Committees: Listed companies in India are required to have an audit committee that oversees the financial reporting process and ensures that the company's financial statements are accurate and reliable. Shareholder Rights: Shareholders in India have a number of rights, including the right to vote on key issues such as the election of directors and the approval of major corporate transactions. Disclosure and Transparency: Indian companies are required to disclose a wide range of information to the public, including financial statements, annual reports, and information about the company's management and operations. In this paper we will study the concept and principles of corporate goverbance along with its importance from the viewpoint of India. Then we will discuss the various issues and challenges related to corporate governance.

Keywords: Corporate Governance, Companies Act, SEBI, India.

Introduction:

Corporate Governance practices refer to the set of rules, regulations, and processes that govern the way companies are controlled and managed. These practices are essential for ensuring that companies operate ethically, transparently, and in the best interests of all stakeholders. In recent years, Corporate Governance practices in India have gained increasing attention due to the growing number of corporate scandals and frauds. The Indian government has taken several measures to ensure that companies follow ethical practices and maintain transparency in their operations. Despite the efforts, India still faces numerous challenges in implementing robust Corporate Governance practices. The issues include inadequate disclosure and transparency, conflicts of interest, insufficient independent directors, and weak shareholder activism. In this article, we will discuss the importance of Corporate Governance practices in India and the problems faced by companies in implementing them.

. It is an important aspect of business that ensures transparency, accountability, and fairness in a company's operations. In India, corporate governance practices have gained significant importance over the past few decades, following several high-profile cases of corporate fraud and mismanagement. As a result, the Indian government has implemented several laws and regulations to promote good corporate governance, such as the Companies Act, 2013. Good corporate governance practices in India are designed to promote trust and confidence among stakeholders, including shareholders, customers, employees, and the wider public. Companies that adhere to these practices are seen as more reliable and trustworthy, which can improve their reputation and ultimately benefit their bottom line.

The five principles of corporate governance:

1. Responsibility

It's a two-way avenue between shareholders and directors: if directors are in the job on the say-so of shareholders, they are answerable to those shareholders. A board is responsible for fulfilling shareholders' wishes. That involves shepherding a company away from risk, around challenges, and towards success while staying true to its mission, respecting the law of the land, and the sensitivities of the politics around them. It's a difficult job, but this is what responsibility truly means.

2. Accountability

No matter what judgment a board takes, they should be able to back it up. Important corporate decisions will inevitably lead to questions, and this isn't a bad thing – merely a sign of engagement and diligence.

3. Awareness

The key to a company's survival and prosperity is to know the landscape of risk around it. Boards are always at the forefront of this effort, not just because they are in a position of responsibility, but because they are usually in their roles thanks to years, if not decades, of significant, relevant experience.

4. Impartiality

Boards must strike a careful balance between their various responsibilities, the people who answer to them, and the people they answer to. They should approach every decision with an independent mindset, ensuring no personal interests or those of close colleagues come between them and the correct business decision.

5. Transparency

This is the most practical principle, and it's simply about the paperwork. Boards are responsible for documenting and reporting on everything that's expected of them as clearly and thoroughly as is necessary.

Review of literature:

Agarwal and Kaur (2019) found that companies that follow sound Corporate Governance practices have better financial performance and higher market value.

Bhatia (2020) emphasized the need for companies to maintain transparency and accountability to build trust with stakeholders. However, despite the efforts of the Indian government to regulate Corporate Governance practices, there are several challenges that companies face.

Krishnan and Krishnan (2019) found that Indian companies face issues such as inadequate disclosure and transparency, lack of shareholder activism, and weak enforcement of regulations. The role of independent directors has also been a topic of discussion in the Indian Corporate Governance context.

Ganguli and Roy (2019) found that the appointment of independent directors has not curbed the problem of related-party transactions in India. Overall, the literature suggests that Corporate Governance practices are essential for the sustainable growth of businesses in India. However, the challenges faced by companies in implementing these practices need to be addressed to ensure better compliance and enforcement of regulations.

Objective of the study:

The objective of this study is to examine the problems and importance of Corporate Governance practices in India. Specifically, the study aims to:

1. Identify the main challenges faced by companies in implementing robust Corporate Governance practices in India.
2. Evaluate the impact of Corporate Governance practices on the financial performance and market value of Indian companies.
3. Analyze the role of independent directors in promoting transparency and accountability in Indian corporations.
4. Assess the effectiveness of regulations and enforcement mechanisms in ensuring compliance with Corporate Governance norms in India.
5. To compare and contrast corporate governance practices in India with those in other countries.

Research methodology

Research Design: This study is a descriptive in nature which aims to provide an accurate picture of the problems and importance of Corporate Governance practices in India. The research will involve a comprehensive review of the existing literature on Corporate Governance practices in India, followed by an analysis of the data obtained from the review.

Data Collection: The data for this study has been collected from secondary sources such as academic articles, online databases, published reports, books, articles published in different journals & newspapers, periodicals, conference paper, working paper of different organizations or individuals and blogs of websites etc.

Importance of Corporate Governance in India:

There are several reasons why corporate governance is important in India. First and foremost, it helps to promote transparency and accountability in business operations. By implementing strong corporate governance practices, companies can ensure that their activities are conducted in a fair and ethical manner, and that they are held accountable for any misconduct or wrongdoing.

Secondly, corporate governance is critical for protecting the interests of shareholders. Shareholders invest in companies with the expectation that their investment will generate returns, and it is the responsibility of the company's board of directors and management to ensure that the business is run in a way that maximizes shareholder value. Strong corporate governance practices can help to prevent conflicts of interest and ensure that decisions are made in the best interests of shareholders.

The Corporate Governance framework in India is based on the recommendations of the Kumar Mangalam Birla Committee, which was constituted by the Ministry of Corporate Affairs in 1999. The committee's main objective was to recommend areas for improvement in the governance of companies in India. The committee recommended the adoption of a set of principles and practices of corporate governance on a "comply or explain" basis.

The principles and practices of corporate governance recommended by the committee include:

1. Board of Directors:

The board should consist of non-executive, independent, and executive directors who are responsible for monitoring the company's performance.

2. Corporate Social Responsibility:

Companies should adopt a corporate social responsibility policy and ensure its implementation in the organisation.

3. Disclosure and Transparency:

Companies should ensure that their financial statements, disclosure of material events, and other information are available to the public in a timely manner.

4. Audit Committee:

Companies should establish an audit committee to oversee the financial reporting process.

5. Shareholders' Rights:

Companies should ensure that the rights of shareholders are protected and that they have access to appropriate information.

6. Remuneration:

Companies should ensure that the remuneration to senior management and employees is appropriate and fair, taking into account each individual's contribution and overall performance.

Problems and Challenges in Corporate Governance

1. **Selection procedure and term of Board:**

   The selection procedure adopted in Indian corporations is the biggest challenge for good corporate governance. Law requires a healthy mix of executive and non-executive directors, independent directors, and woman directors. Most companies in India tend to only comply on paper; board appointments are still by way of **word of mouth** or fellow board member recommendations. It is common for friends and family of promoters and management to be appointed as board members.

Life-term board members can pose many problems to business say fixed beliefs, power gaining etc. so no business prefers to appoint board members for life-term. And if the board is very short then they will not take long term decisions with full of their efficiency because in long run they will be changed or relieved from their duties. So the term of board must be fixed with due attention. Typically in a board of directors, directors sit for a brief term say 2 to 5 years and it is good practice to switch some of directors at a fixed time interval instead of changing whole board at a single time.

2. **Performance Evaluation of Directors:**
SEBI, India's capital markets regulator, has released a 'Guidance Note on Board Evaluation' in January 2017. Which cover all major aspects of Board Evaluation including the Subject & Process of Evaluation, Feedback to the persons being evaluated, Action Plan based on the results of the evaluation process, Disclosure to stakeholders, Frequency & Responsibility of Board Evaluation. But for achieving the desired objectives from performance evaluation, they need to make the evaluation result public and these disclosures may put the corporate in big trouble.
3. **Missing Independence of Directors:**
Independent directors' appointment was supposed to be the biggest corporate governance reform by kumar mangalam committee on corporate governance in 1999. However in reality independent directors have hardly been able to make the desired impact. Till now the appointment of directors in most of companies is made at the discretion of promoters, so it is still questionable. For providing the true success it is necessary to limit the promoter's powers in matters relating to independent directors.
4. **Removal of Independent Directors:**
Under law, an independent director can be easily removed by promoters or majority shareholders. When an independent director doesn't take the side with promoter's decisions, they are removed from their position by promoters. So to save their post directors have to work for the interest of promoters. To resolve this issue SEBl's International Advisory Board had proposed an increase in transparency for the appointment and removal of directors.
5. **Liability toward Stakeholders:**
Indian company act 2013 mandates that directors owe duties not only towards the company and shareholders but also towards the other stakeholders and for the protection of the environment. But generally, board tries to limit and escape from these kinds of accountability good idea to require the entire board to be present at general meetings to give stakeholders an opportunity to pose questions to the board.
6. **Founder/Promoter's extensive Role:**
In India, instead of separate entity of businesses, promoters or founders continuously influence the business decisions Family owned Indian companies suffer an inherent inhibition to let go of control. They affect the decisions by influencing the board and management. This is done because they had the significant portion of company's share. So to remove this issue it will be good idea to amplify the shareholder base and reduce the shareholding of founders.
7. **Transparency and Data Protection:**
Corporate governance is based on the principle of transparency but it cannot be defined what information is to be disclosed or not. In today's cut throat environment of competition it can be very dangerous if wrong information be disclosed. In digitalization Privacy and data protection is a central governance issue. For this the board must be capable of handling data and to ensure the

protection of such data from potential misuse. And by looking at the importance of data and the potential cost if data be misused, we can say that organization must invest a reasonable amount of resources to protect the data.

8. **Business Structure and internal conflicts:**
   Business structures also put hindrance on the way to good governance as they require many layers of management, executives and other officers. This makes it very difficult for the company leaders to receive accurate, important data from the lower levels and to command orders to lower level of the company as the data may be distorted at any point of chain. Board of executives can make much good decisions and policies. But if the internal relationship in the organization says between board and managers is not good then the implementation of decisions and policies also get affected. Rebellious managers can sabotage corporate decisions and policies at many levels of the business.
9. **Environment of mistrust:**
   In recent years, many scams, frauds, misappropriation of public money, and corrupt practices have taken place and because of the doubtful practices of key executives and board members, confidence of investors and society has diminished. It is happening in the stock market, banks, financial institutions, companies and government offices. This has made the business environment distrustful

Challenges & Imperatives

1. A corporation should be fair and transparent to its stakeholders in all its transactions. This has turn imperative in present's globalized business world where corporations need to access global pools of capital need to attract and retain the good human capital from various parts of the world. Unless a corporation embraces and demonstrates ethical conduct, it'll not be capable to succeed.
2. What's **Corporate Governance** it's known fact that vital necessities of success of any association lingers on its ability to mobilize and use all kinds of resources to meet the objects easily set as part of the planning process.
3. Corporate governance is about ethical conduct in business. Ethics is concerned with the law of values and principles that enables a person to choose between right and wrong. Further, ethical dilemmas arise from clashing interests of the parties involved.
4. It's enough possible that in the effort at arriving the best possible financial results or business results there could be attempts at doing things which are verging on the illegal or indeed illegal. There's also the possibility of grey areas where an act isn't illegal but considered unethical. These raise moral issues.
5. The quick migration of four elements across national borders. These are:
   i. Physical capital in terms of plant and machinery;
   ii. pecuniary capital;
   iii. Technology; and
   iv. Labor.
6. Strong corporate governance is essential to flexible and vibrant capital markets and is an important instrument of investor protection.
7. Companies raise capital from market and investors suffered due to unscrupulous guidance that performed much worse than past reported figures. Numerous corporates didn't pay heed to investors grievances.

8. The board of directors and the elderly position administration of an enterprise- walking their talk. It's by walking their talk that the top administration can earn credibility. This also has a direct bearing on the morale of an organization.
9. When it comes to the hardware aspect of corporate governance, we go into the issue of a law, which becomes a reference point for actions. But the sad fact in our country is that even though there's a lot of talk about corporate governance, when it comes to reality, nothing big happens.
10. In the Indian context lack of clarity that leads to corrupt or illegal actions.

Limitations:

This study is limited by its reliance on secondary sources of data. The validity and reliability of the data will depend on the quality of the sources used. Additionally, the study may not be able to capture the diversity of Corporate

1. **Lack of enforcement**: Even though there are laws and regulations in India that govern corporate governance, they are not always enforced effectively. This can lead to companies not taking these practices seriously.

2. **Limited scope**: Corporate Governance practices in India are limited to listed companies, leaving out many other companies that may also require good corporate governance practices.

3. **Lack of transparency**: There is often not enough transparency in the operations of companies in India. This can lead to difficulties in monitoring the effectiveness of corporate governance practices.

4. **Limited shareholder activism**: Shareholders in India are not always active in holding companies accountable for their actions. This can lead to companies not taking their responsibilities towards shareholders seriously.

5. **Independent directors**: There is often a lack of independence among directors in India. As a result, they are not always able to impartially evaluate and influence the decision-making processes of companies.

Conclusion:

Overall, this research methodology aims to provide a comprehensive and reliable analysis of the problems and importance of Corporate Governance practices in India. The results of the study will contribute to the ongoing discussion on the need for robust Corporate Governance practices in India to ensure sustainable growth and development of businesses. In the Indian context, the need for corporate governance has been pointed because of the frauds occurring constantly since the emergence of the concept of liberalisation from 1991. We had the Harshad Mehta fraud, Ketan Parikh Scam, UTI fraud, Vansishing Company Scam, Bhansali Scam and so on. In the Indian corporate scene, there's a need to induct global standards so that at least while the scope for frauds may still exist, it can be at least reduced to the minimum.The key corporate governance practices in India include the composition of the board of directors, the presence of independent directors, audit committees, shareholder rights, and the disclosure and transparency of information. While there is always room for improvement, India has made significant progress in improving corporate governance practices, which is crucial in maintaining the trust and confidence of the public and investors in the Indian corporate sector. After studying this paper we can conclude that although India has achieved a good rank in corporate governance regulation but being a developing country has a long way to go on the path of corporate governance.

Suggestions:

Strengthen the role of independent directors: Independent directors play a critical role in promoting transparency and accountability in companies. The government should take steps to ensure that independent directors are appointed based on their qualifications and expertise rather than as a token gesture.

Improve disclosure and transparency: Companies should be required to provide more comprehensive information about their operations, financial performance, and governance practices. This will help to build trust among stakeholders and improve the overall reputation of Indian businesses.

Encourage shareholder activism: Shareholders should be encouraged to play a more active role in monitoring the activities of the companies they invest in. This can be achieved by providing them with more information and greater participation in decision-making processes.
Strengthen regulations and enforcement mechanisms: The government should strengthen regulations and enforcement mechanisms to ensure that companies comply with Corporate Governance norms. This will help to deter fraudulent activities and improve the overall compliance culture of Indian businesses.

Promote training and education: Companies should be required to provide training and education to their employees and board members to ensure that they are aware of the importance of Corporate Governance practices. This will help to create a culture of compliance and improve the overall quality of Corporate Governance practices in India.
By implementing these suggestions, India can improve the overall quality of Corporate Governance practices and ensure sustainable growth and development of businesses in the country.

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