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Impact of corporate governance in India

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Abstract
Corporate Governance is recently emerged concept and has taken the attention of each and every country, investors and corporate professionals. Corporate governance in India came into picture by a spate of crises in the early 90's as well as opening up to the forces of competition and globalization. Corporate governance is the practice, which requires transparency, accountability and good performance from the corporate executives. Well-defined and enforced corporate governance provides a structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws.

Keywords: Corporate Governance, Board Structure, Independence, Transparency & Innovation

Introduction
Creating Value that is not only profitable to the business but sustainable in the long-term interests of all stakeholders necessarily means that businesses have to run and be seen to be run with a high degree of ethical conduct and good governance where compliance is not only in letter but also in spirit. Corporate Governance is recently emerged concept and has taken the attention of each and every country, investors and corporate professionals. Corporate governance in India came into picture by a spate of crises in the early 90's as well as opening up to the forces of competition and globalization. Corporate governance is the practice, which requires transparency, accountability and good performance from the corporate executives.
Corporate Governance consists of strategies, processes and laws through which a firm is directed and controlled. It focuses on the safety of all the stakeholders (such as Board of Directors, Shareholders, Customers, Management, Employees, Creditors, Suppliers, Regulators, and the Community at large) and company's goal. Numerous studies emanating from academic and non-academic circles over the years show that good Corporate Governance will yield numerous benefits to the investors, company and nation as a whole. Better CG can provide shareholders with greater security on their investment and ensures that shareholders are sufficiently informed on decisions concerning fundamental issues like amendments of statutes or articles of incorporation, sale of assets, etc

Importance of Corporate Governance
Corporate governance is an important managerial tool for extremely large or publicly held companies. Corporate Governance protects the interests of individuals in a company, whether they are owners, managers, employees or outside stakeholders. In India SEBI regulates the listed companies to comply with Corporate Governance guidelines for investors' protection. This study is important and useful for understanding the concept of Corporate Governance by Indian listed companies and how this can impact the company and make or break the investors' confidence in the company.

Need For Corporate Governance
One reason is the proliferation of scandals and crises. The scandals and crises are just manifestations of a number of structural reasons why Corporate Governance has become more important for investors protection, economic development and a more important policy issue in many countries. Due to technological progress, liberalization and opening up of financial markets, trade liberalization, and other structural reforms notably,

price deregulation and the removal of restrictions on products and ownership the allocation within and across countries of capital among competing purposes has become more complex, as has monitoring of the use of capital. This makes good governance more important, but also more difficult.

The role of institutional investors is growing in many countries, with many economies moving away from "pay as you go" retirement systems. This increased delegation of investment has raised the need for good Corporate Governance arrangements. A further reason why Corporate Governance has become increasingly relevant is that, with advances in communications technology, detailed information about individual corporations and about their national governance frameworks is now readily available on screen and the public scrutiny of business is correspondingly more intense. Lastly, the positive effect of Corporate Governance on different stakeholders ultimately is a strengthened economy, and hence good Corporate Governance is a tool for socio-economic development.

Principles of corporate governance

1. Transparency

Transparency means the quality of something which enables one to understand the truth easily. In the context of corporate governance, it implies an accurate, adequate and timely disclosure of relevant information about the operating results etc. of the corporate enterprise to the stakeholders. In fact, transparency is the foundation of corporate governance; which helps to develop a high level of public confidence in the corporate sector. For ensuring transparency in corporate administration, a company should publish relevant information about corporate affairs in leading newspapers, e.g., on a quarterly or half yearly or annual basis.

2. Accountability

Accountability is a liability to explain the results of one's decisions taken in the interest of others. In the context of corporate governance, accountability implies the responsibility of the Chairman, the Board of Directors and the chief executive for the use of company's resources (over which they have authority) in the best interest of company and its stakeholders.

3. Independence

Good corporate governance requires independence on the part of the top management of the corporation i.e. the Board of Directors must be strong non-partisan body; so that it can take all corporate decisions based on business prudence. Without the top management of the company being independent; good corporate governance is only a mere dream.

Key Areas of Impact

While there are changes across the board, the key impact areas in the area of corporate governance include the following:

1. Board structure and responsibility

- Enhanced responsibility for the board and its committees
- Specified unlisted companies to have independent directors; mandatory code for Independent Directors
- Mandatory woman director for certain companies.
- Mandatory key managerial personnel (Key Managerial Personnel) – Chief Executive Officer/ Managing Director/Whole Time Director, Chief Financial Officer and Company Secretary
- Performance evaluation of board and individual members

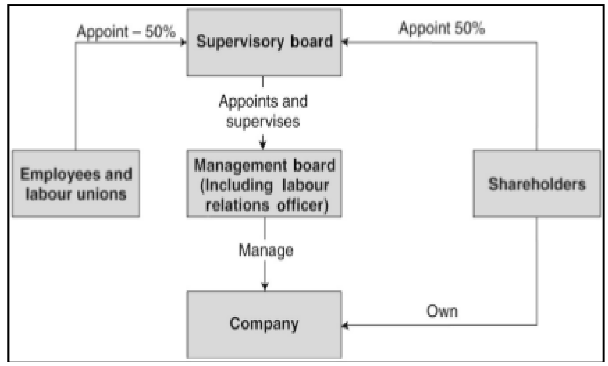

Fig 1: Corporate Governance Management Structure

2. Disclosures and reporting

- Enhanced disclosures and assertions in Directors' Report – risk management, internal control for financial reporting, legal compliance, RPT, CSR, etc.
- Compulsory consolidation of accounts; summary statements of associates / Joint Ventures / subsidiaries
- Disclosures of shareholding pattern

Disclosures for public money lying unutilized

3. Risk, controls and compliances

- Boards now obligated to report on the following:
- Development and implementation of risk management policy
- Systems to ensure compliance to all applicable laws and their operating effectiveness
- Internal financial controls and their operating effectiveness (for listed companies)
- Secretarial compliances
- Stricter yet forward-looking procedural requirements for board proceedings:
- Minimum 7 days notice, board meetings permitted through electronic mode
- Presence of at least one Independent Director must for board meeting at shorter notice
- Gap between two meetings < 120 days
- Compliance of ICSI Secretarial Standards have been mandatory

5. Related party transactions (Related Party Transaction), loans and investments

- Scope of RPT significantly enhanced; concept of arm's length pricing introduced
- Central government approval not required, however, heavy penalties for non compliance
- Related Party Transaction disclosure in Directors' Report along with justifications
- Stricter requirements for loans and investments including private companies

6. Audit and auditors
- Enhanced restrictions on appointment and rotation of auditors
- Statutory auditors prohibited from providing certain services
- Enhanced powers and role of auditors
- Mandatory internal audit and secretarial audit for prescribed class of companies
- Auditors to report on internal financial controls and their operating effectiveness

7. Corporate social responsibility
- Prescribed class of companies to:
- Form a CSR committee with at least one Independent Director
- Form and approve a Corporate Social Responsibility policy
- Endeavour to spend at least 2% of net profits
- Directors to explain inability to spend in the directors' report

Important issues in corporate governance
There are several important issues in corporate governance and they play a great role, all the issues are inter related, interdependent to deal with each other. Each issues connected with corporate governance have different priorities in each of the corporate bodies.

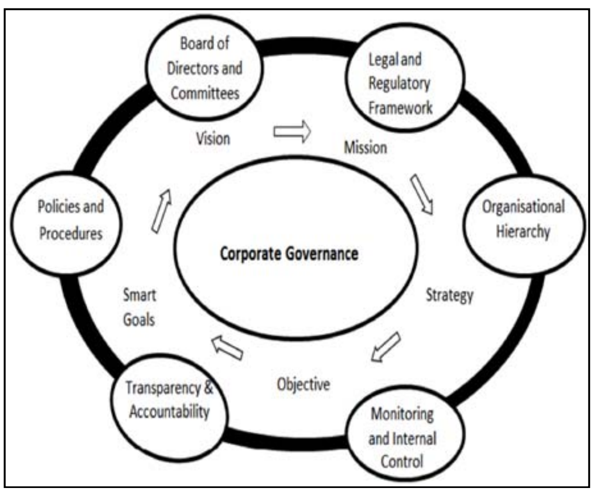

Fig 2: Corporate Governance activities

1. Value based corporate culture
For any organization to run in effective way, it needs to have certain ethics, values. Long run business needs to have based corporate culture. Value based corporate culture is good practice for corporate governance. It is a set of beliefs, ethics, principles which are inviolable. It can be a motto i.e. A short phrase which is unique and helps in running organization, there can be vision i.e. dream to be fulfilled, mission and purpose, objective, goal, target.

2. Holistic view
This holistic view is more or less godly, religious attitude which helps in running organization. It is not easier to adopt it, it needs special efforts and once adopted it leads to developing qualities of nobility, tolerance and empathy.

3. Compliance with laws
Those companies which really need progress, have high ethical values and need to run long run business they abide and comply with laws of Securities Exchange Board Of India (SEBI), Foreign Exchange Regulation Act, Competition Act 2002, Cyber Laws, Banking Laws etc.

4. Disclosure, transparency, and accountability
Disclosure, transparency and accountability are important aspect for good governance. Timely and accurate information should be disclosed on the matters like the financial position, performance etc. Transparency is needed in order that government has faith in corporate bodies and consequently it has reduced corporate tax rates from 30% today as against 97% during the late 1970s. Transparency is needed towards corporate bodies so that due to tremendous competition in the market place the customers having choices don't shift to other corporate bodies.

5. Corporate Governance and Human Resource Management
For any corporate body, the employees and staff are just like family. For a company to be perfect the role of Human Resource Management becomes very vital, they both are directly linked. Every individual should be treated with individual respect, his achievements should be recognized. Each individual staff and employee should be given best opportunities to prove their worth and these can be done by Human Resource Department. Thus in Corporate Governance, Human Resource has a great role.

6. Innovation
Every Corporate body needs to take risk of innovation i.e. innovation in products, in services and it plays a pivotal role in corporate governance.

7. Necessity of Judicial Reform
There is necessity of judicial reform for a good economy and also in today's changing time of globalization and liberalization. Our judicial system though having performed salutary role all these years, certainly are becoming obsolete and outdated over the years. The delay in judiciary is due to several interests involved in it. But then with changing scenario and fast growing competition, the judiciary needs to bring reforms accordingly. It needs to speedily resolve disputes in cost effective manner.

8. Globalization helping Indian Companies to become global giants based on good governance
In today's age of competition and due to globalization our several Indian Corporate bodies are becoming global giants which are possible only due to good corporate governance.

9. Lessons from Corporate Failure
Every story has a moral to learn from, every failure has success to learn from, in the same way, corporate body have certain policies which if goes as a failure they need to learn from it. Failure can be both internal as well as external whatever it may be, in good governance, corporate bodies need to learn from their failures and need to move to the path of success.

Corporate Governance in India Past, Present & Future

Good corporate governance in the changing business environment has emerged as powerful tool of competitiveness and sustainability. It is very important at this point and it needs corporation for one and all i.e. from CEO of company to the ordinary staff for the maximization of the stakeholders' value and also for maximization of pleasure and minimization of pain for the long term business.

Global competitions in the market need best planning, management, innovative ideas, compliance with laws, good relation between directors, shareholders, employees and customers of companies, value based corporate governance in order to grow, prosper and compete in international markets by strengthen their strength overcoming their weaknesses and running them effectively and efficiently in an efficient and transparent manner by adopting the best practices.

Indian Corporate Bodies having adopted good corporate governance will reach themselves to a benchmark for rest of the world; it brings laurels as a way of appreciation. Corporate governance lays down ethics, values, and principles, management policies of a corporation which are inculcated and brought into practice. Several Indian Companies like PepsiCo, Infuses, Tata, Wipro, TCS, and Reliance are some of the global giants which have their flag of success flying high in the sky due to good corporate governance.

Today, even law has a great role to play in successful and growing economy. Government and judiciary have enacted several laws and regulations like SEBI, FEMA, Cyber laws, Competition laws etc and have brought several amendments and repeal the laws in order that they don't act as barrier for these corporate bodies and developing India. Judiciary has also helped in great way by solving the corporate disputes in speedy way. Under the present scenario, stakeholders are given more importance as to shareholders, they even get chance to attend, vote at general meetings, make observations and comments on the performance of the company.

Corporate governance should also have approach of holistic view, value based governance, should be committed towards corporate social upliftment and social responsibility and environment protection. It also involves creative, generative and positive things that add value to the various stakeholders that are served as customers. Be it finance, taxation, banking or legal framework each and every place requires good corporate governance. Hence corporate governance is a means and not an end, corporate excellence should be end.

Conclusion

Well-defined and enforced corporate governance provides a structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws. To that end, organizations have been formed at the regional, national, and global levels. In recent years; corporate governance has received increased attention because of high-profile scandals involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers. An integral part of an effective corporate governance regime includes provisions for civil or criminal prosecution of individuals who conduct unethical or illegal acts in the name of the enterprise.

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