



CORPORATE GOVERNANCE CHALLENGES IN BUSINESS ENTERPRISES (IN INDIAN PERSPECTIVE)

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ABSTRACT

Ethics in business are of utmost importance. The supreme content of any strategy for growth of an organisation comes from ethical consciousness. When we violate ethical standards, the gains, however big, will be short-lived. So the real issue in building up an effective corporate governance system is the genuineness in the management's ethical stance. The ultimate focus of business is people and the governance objective should facilitate in reaching them. The Indian corporate governance system has evolved over a period of time, drawing from the British legacy initially and from the US practices recently. After SATYAM debacle India requires strict Corporate Governance follow up. New norms on Corporate Governance declared by SEBI in the year 2014 are also incorporated in Research work carried out by the Researcher. More recently TATA Group was also in news.

KEY WORDS: Corporate Governance, globalization, Commerce, Management.

INTRODUCTION

The corporate world is not free from economic changes from the fast changing business environment and Indian corporate world is not free from it. At present there are many players with different interests. However, the common goal and expectation is honesty, integrity and business and moral credibility (missing largely in Indian corporate world!!!). Towards this goal, professionals, groups and organisations which include the corporate try to acquire skills, methods and technologies that may give them an ethical competence to face moral challenges. Many a time, a disconnect between the organisation and the individuals value leads to a crisis, in Indian corporate world, which, in turn affects the image of the corporate and also the expectations of the share holders and investors.

We have seen from time to time the dubious role played by individuals, which has led to the fall of strong corporates. Many a time, the business is liquidated not only because of the market and policy changes but also due to scandalous acts of some key individuals in the corporate s in Indian corporate culture.

ASSUMING GREAT IMPORTANCE

It is in this context that corporate governance has assumed great importance in Indian context. It is increasingly demanding our attention and has moved

to the centre stage. The Enron and World.com scandal in the US have clearly shown to the world the necessity of having good corporate governance in corporate world. In our country, where we are embracing globalisation, liberalisation and deregulation, corporate governance is very critical. The simple mechanism is to draw procedures and follow them strictly. A corporate enterprise should have the prime objective of conducting business as per ethical standards which ultimately makes a company a good or a bad one. Ethics in business is of utmost importance. Management Gurus and accounting experts may give the best of routes and models for establishing market leadership or attaining higher profits, but the supreme content of any strategy for growth and progress of an organisation comes from ethical consciousness.

Corporate governance is practised through a code of best practices. On account of the interest generated by Cadbury Committee Report, the Confederation of Indian Industries (CII), the Associated Chambers of Commerce and Industry (ASSOCHAM) and, the Securities and Exchange Board of India (SEBI) constituted Committees to recommend initiatives in Corporate Governance. The recommendations of the Kumar Mangalam Birla Committee, constituted by SEBI, led to addition of Clause 49 in the Listing Agreement. These recommendations, aimed at improving the standards of Corporate Governance, are divided into mandatory



and non-mandatory recommendations. The recommendations have been made applicable to all listed companies, their directors, Management, employees and professionals associated with such companies. The ultimate responsibility for putting the recommendations into practice lies directly with the Board of Directors and the management of the company. The other development include constitution of a high powered Committee by Department of Companies affairs, Government of India, headed by Shri Nareshchandra, on August 21,2002, to examine various corporate governance issues.

Other developments include the constitution of a Committee by SEBI under Chairmanship of Shri N.R.Narayana Murthy, for reviewing implementation of the corporate governance code by listed companies and issue of revised clause 49. Another Committee has been constituted by Department of Company Affairs known as the Working Group for examination of suggestions received on good corporate governance.

A high powered Central Coordination and Monitoring Committee(CCMC) co chaired by Secretary, Department of Company Affairs and Chairman, SEBI was set up to monitor the action taken against the vanishing companies and unscrupulous promoters who misused funds from the public. It was decided by this committee that seven task forces be set up at Mumbai,Delhi, Chennai, Kolkatta, Ahmedabad, Bangalore and Hyderabad with regional Directors/Registrar of Companies of respective regions as Convenor and regional offices of SEBI and Stock Exchanges as members.

RECENT DEVELOPMENT OFCORPORATEGOVERNANCE IN INDIA

As per leading national newspaper, Times of India of 14th February 2014, SEBI has suggested following major changes in the area of Corporate Governance:

- Listed companies should have compensation committee.
- Panel will first have remuneration policy.
- Listed firms should have compulsory whistle blower mechanism.
- No stock options to independent directors.
- Enhanced disclosures of remuneration policies.
- Maximum number of boards an independent director can serve on listed companies restricted to 7 (seven).
- Total tenure of an independent director restricted to two terms of five years.
- New Norms for all listed companies to be effective from oct.1 2014.
- It also said that there should be atleast one woman director on the board of every company

WHERE INDIAN COMPANIES NEED TO IMPROVE

It is difficult to offer a broad based response to Corporate governanceto this because the Indian industry is not one homogeneous cluster. It has several subdivisions and categorisations. We need to look at those categories and explore what needs to be done. For instance in the US and in the UK, the pattern of corporate governance which is generally followed is based on dispersal ownership. In other parts of the world including India, corporate ownership is not dispersed, it is concentrated in the hands of dominant shareholders. The dominant shareholders are family groups and domestic groups like big industrial houses and government institutions. Then there are multinational groups with their subsidiaries and affiliates in our country. Other group is the state owned corporations where the state is dominant owner- the Public sector under takings. It is natural that the publicsector has a dominant role in certain areas which are key to in certain areas which are key to socio economic growth or strategic to the country's defence and integrity .often, they are run as if they are wholly owned by the state even where substantial proportions of its equity are held by other investors.So irrespective of the nature of concentrated or dominant ownership, all the companies require appropriate mechanisms to ensure effective and transparent governance.

At present, it is seen some foreign institutional investors (FIIs) going for corporations saying that they are taking a risk in the short term and the rewards may compensate them adequately for their risk. They may be right in an economic sense, But if they succeed in that it will set a bad pattern for the industry. Indian corporate should have proper enforcement laws. Our problem is is not the lack of or in adequacy of legal framework, but its speedy and effective enforcement.

There are companies which operate in the global markets and are obliged to have global standards. They have to present themselves as well governed companies by the standards of corporate practices expected of them in their host countries. Then only, they can get established in the international market. Apart from meeting international governance requirements, they have the opportunity to adopt new standard in their domestic environment as well as and move forward. Those companies which are still living in theof the past should try to become global by aspiring for improvement in the quality of corporate governance. It is for the companies to choose the areas for improvement for the corporate governance on the strength of their present standards.

No big corporation can be managed on anyone's hard earned money So what corporations should practice is what Mahatma Gandhi prescribed decades ago " Trusteeship'.



TRANSFORMATION REQUIRED TO COPE UP WITH GLOBALISATION

The Indian corporate sector requires a lot of changes and major change required is to professionalise their business. And to determine where the core sector lies, Indian corporates have gone into all sorts of businesses which they neither understand nor have resources for it. They have to find out their strengths, the core sector they should confine themselves to, and resources available to go for the best technology. So they began to suffer when they faced so much competitions with globalisation. The corporate sector has to restructure their business as they have the manpower and resources for that. They have to get technically qualified professionals to run their business and be transparent in all their economic activities. To introduce corporate governance, that sort of transformation is required, so that they can produce good quality products at very competitive prices to face tough global competition. The collective ability, in terms of knowledge and skill of the board of directors to effectively supervise the executive management, determines the effectiveness of the board. Corporate governance is an issue of mindset.

GOOD CORPORATE GOVERNANCE

In the backdrop of efforts to further governance practices, how do we visualise the future of Indian corporate sector? In the years to come, the Indian financial system will grow not only in size but also complexity as the forces of competition gain further momentum and variedness plus they acquire more financial depth. We can only hope that the policy environment will remain supportive of healthy growth and development with accent more on operational flexibility as well as greater prudential regulation and supervision. The real success of our financial sector reforms will however, depend primarily on the organisational effectiveness of the various financial institutions including cooperative banks, for which initiatives will have to come from banks themselves.

To sum up, good corporate governance is about putting the good of the corporation ahead of individual good, and being a good corporate citizen. It is about civilised behaviour and about long term orientation. It is about making the life better for the next generation of leaders in the corporation. This is what civilised societies are about, and history has shown that it is civilised societies that have progressed. This should be the lesson in this for all of us.

CONCLUSION

Further cultural reforms are still needed. Broadbased reforms should be introduced and implemented by altering current system of business

education and introducing "value based education system". Additionally, issues of corporate governance should be given more publicity in order to them permeate more into Indian business. Finally board of directors should play part in cultivating more positive corporate culture. For Corporate governance in India to become sustainable it must become integral and indispensable part of Indian corporate culture. Indian Government has taken steps to improve corporate governance in India by creating National Foundation for Corporate Governance, whose main purpose is to promote good corporate governance practice in India. Corporate Governance standards will improve by implementing it wholeheartedly and not by mere formulation.

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