



Corporate Governance: Issues and Challenges

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Abstract: *Corporate governance refers generally to the rules, processes, or laws by which businesses are operated, regulated, and controlled. The term can refer to internal factors defined by the authorities, stockholders or constitution of a corporation, as well as to external forces such as consumer groups, clients, and government regulations. It is essentially involves harmonizing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community etc.*

Keywords: *Corporate governance, stakeholders, management, customers, community.*

I. INTRODUCTION

Corporate governance is a system of structuring, operating and controlling an organization in order to achieve long term objectives to satisfy stakeholders like shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory framework. Corporate governance is the set of processes, policies, laws, and institutions influencing the way an organization is directed, administered or controlled. It also includes the relationships among the stakeholders and the objectives for which the organization is governed. The main stakeholders consist of shareholders, management, and the board of directors. Other stakeholders include employees, customers, creditors, suppliers, regulators, and the community at large. For Not-For-Profit organizations or other membership Organizations the “shareholders” means “members”. In recent time, corporate governance has received augmented attention because of high-profile scandals, like Satyam scandals, involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers.

II. CORPORATE GOVERNANCE NORMS

Corporate governance are the policies, procedures and regulations governing the relationships among the stakeholders which include shareholders, , directors and managers in a company, as defined by the applicable laws, the corporate charter, the company’s bylaws, and formal regulatory policies.

III. CORPORATE GOVERNANCE IN INDIA

At the time of independence, India inborn one of the world’s poorest economies but with four functioning stock markets with clearly defined rules- governing listing, trading and settlements; a well-developed equity culture if only among the urban rich; and a banking system replete with well-developed lending norms and recovery procedures. The Companies Act 1956 and other laws governing the operations of joint - stock companies and protecting the investors’ rights built on this foundation. The turn towards socialism in the decades after independence marked by the 1951 Industries Development and Regulation Act as well as the 1956 Industrial Policy Resolution put in place a rule and culture of licensing, protection and extensive red-tape that bred corruption and affected the growth of the corporations. The situation passed from bad to worse in the following decades and corruption, favoritism and inefficiency became the hallmarks of the Indian corporations. Excessive tax rates encouraged creative accounting practices and complex emolument structures to beat the system. In the absence of a developed stock market, the three all-India development finance institutions (DFIs) – the Industrial Finance Corporation of India, the Industrial Development Bank of India and the Industrial Credit and Investment Corporation of India together with the state financial corporations became the main facilitators of long-term credit to the corporations. Along with the government owned mutual fund, the Unit Trust of India, they also held large blocks of shares in the companies they lent to and consistently had representations in their boards. In this respect, the corporate governance system resembled the bank-based German model where these institutions could have played vital role in keeping their clients on the right track.

However, Asian countries fell short of those in the USA and other developed countries. Non-compliance with disclosure norms and even the failure of auditor’s reports to confirm to the law attract nominal fines with hardly any penalizing action. The Institute of Chartered Accountants in India has not been known to take action against erring auditors. Sometimes non-voting preferential shares have been used by promoters to channel funds and deprive minority shareholders of their dues.



- The Indian corporate governance situation was relatively sluggish till the early 90s.
- The situation and objectives of the Indian corporations have changed a much after the liberalization.
- India's economic transformation programme made a balanced progress in 1994.
- India with its more than 25 million shareholders is one of the biggest emerging markets in terms of the market capitalization.

IV. CORPORATE GOVERNANCE OF INDIA HAS UNDERGONE A PARADIGM SHIFT

- In 1996, Confederation of Indian Industry (CII) took a special project on Corporate Governance.
- The aim was to develop and promote a code for corporate governance to be adopted and followed by Indian corporations which include Private Sector, Public Sector, Banks or Financial Institutions, all of which are corporate entities. This initiative by CII regarding the protection of stakeholders' interest, particularly the small investor, the promotion of transparency within business and industry.

V. CORPORATE GOVERNANCE PRINCIPLES

Major facets of good corporate governance principles include trust, honesty and integrity, transparency, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization.

Besides this there are other common principles which are as under;

1. Rights and reasonable treatment of stakeholders
2. Interests of other stakeholders
3. Role and responsibilities of the board
4. Integrity and ethical behavior of corporations
5. Disclosure and transparency

VI. ISSUES INVOLVING CORPORATE GOVERNANCE PRINCIPLES INCLUDE:

1. Internal controls and internal auditors
2. The independence of the company's external auditors and the quality of their audits
3. Mistake and managerial risk
4. Errors in the preparation of the company's financial statements
5. Review of the compensation arrangements for the CEO and other senior executives, directors and MDs
6. The resources made available to directors to undertake their duties
7. Dividend policy

VII. THE NATIONAL TASK FORCE

A National Task Force was set up with the draft guidelines and the code of Corporate Governance (Desirable Corporate Governance Code) in April 1997 (at the National Conference and Annual Sessions of CII.) Since 1974, CII has tried to chart new path in terms of the role of an Industry Association such as itself. It has gone beyond dealing with the traditional work of interacting with Government of policies and procedures, which impact on industry. CII has taken initiative in Quality, Environment, Energy, Trade Fairs, Social Development, International Partnership Building etc. as part of its process of development and expanding contribution to issues of relevance and concern to industry.

VIII. SECURITIES AND EXCHANGE BOARD OF INDIA

The Government of India's securities watchdog, the Securities and Exchange Board of India, announced strict corporate governance norms for publicly listed companies in India. The Indian Economy was liberalized in 1991. In order to achieve the full potential of liberalization and enable the Indian Stock Market to attract huge investments from foreign institutional investors (FIIs), it was necessary to introduce a series of stock market reforms.

On April 12, 1988, the Securities and Exchange Board of India (SEBI) was established with a dual objective of protecting the rights of small investors and regulating and developing the stock markets in India. In 1992, the Bombay Stock Exchange (BSE), the leading stock exchange in India, witnessed the first major scam masterminded by Harshad Mehta. Analysts unanimously felt



that if more powers had been given to SEBI, the scam would not have happened. As a result the Government of India (GoI) brought in a separate legislation by the name of 'SEBI Act

1992' and conferred statutory powers to it. Since then, SEBI had introduced several stock market reforms. These reforms significantly transformed the face of Indian Stock Markets.

IX. THE MAJOR CHANGES TO SEBI AND CLAUSE 49

- i. Independent Directors - 1/3 to 1/2, depending whether the chairman of the board is a non-executive or executive position.
- ii. Non-Executive Directors - The total term of office of non-executive directors is now limited to three terms of three years each.
- iii. Board of Directors - The board is required to frame a code of conduct for all board members and senior management and each of them have to annually affirm compliance with the code.
- iv. Audit Committee - Financial statements and the draft audit report /reports of management discussion and analysis of financial condition and result of operations/reports of compliance with laws and risk management/management letters and letters of weaknesses in internal controls issued by statutory and internal auditors/appointment, removal and terms of remuneration of the chief internal auditor.
- v. Whistleblower Policy - This policy has to be communicated to all employees and whistleblowers should be protected from unfair treatment and termination.
- vi. Subsidiary Companies - 50% non-executive directors & 1/3 & 1/2, independent directors depending on whether the chairman is non-executive or executive.
- vii. Disclosures - Contingent liabilities/ Basis of related party transactions /Risk management, Proceeds from initial public offering/ Remuneration of directors.
- viii. Certifications – Certification is reviewed the necessary financial statements and directors' report; established and maintained internal controls, disclosed to the auditors and informed the auditors and audit committee of any significant changes in internal control and/or of accounting policies during the year.

X. CONCLUSION

Since Indian Corporations competing with global corporations for accessing the capital markets, among them many have realized the benchmarking of world's best organization. For past few decades India was managed, and secured economy with corporate sectors operating.

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