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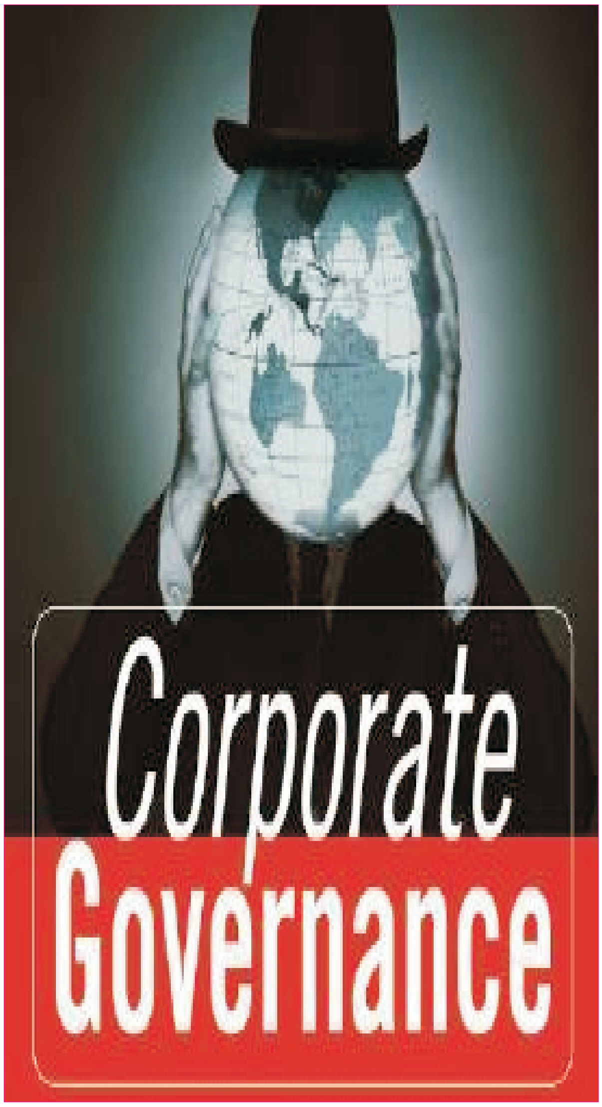
CORPORATE GOVERNANCE IN INDIA PERSPECTIVE



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ABSTRACT

*Corporate Governance (CG) (*1) is an expression which has gained great currency in legal and corporate circles during the last decade and a half. Briefly it refers to a system of rules, practices and procedures by which a company is directed and controlled. It strives to balance the interests of various Stake Holders-Shareholders, Directors, Executors, Suppliers, Financiers, Government and the Community at large in order to achieve the Companies objectives. Corporate Governance started as a voluntary initiative. However, with the failure of well-known companies like Enron in the United States Of America (US), Satyam Computers in India Governments had to step in and enact legislations like Sarbanes Oxley Act in the US. In India the new Companies Act has given legal recognition and powers to the Government and SEBI to enforce Corporate Governance. It is observed that the practice of Corporate Governance has improved the performance of companies by adding value all round and improved investors (Shareholders and Lenders) confidence in them.*

KEYWORDS: *Corporate Governance (CG) , Directors, Executors, Suppliers.*

INTRODUCTION :

Corporate governance is concerned with set of principles, ethics, values, morals, rules regulations, & procedures etc. Corporate governance establishes a system whereby directors are entrusted with duties and responsibilities in relation to the direction of the company's affairs.

The term "governance" means control i.e. controlling a company, an organization etc or a company & corporate governance is governing or controlling the corporate bodies i.e. ethics, values, principles, morals. For corporate governance to be good the manager needs to meet its responsibilities towards its

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owners (shareholders), creditors, employees, customers, government and the society at large. Corporate governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the company.

For effective corporate governance, its policies need to be such that the directors of the company should not abuse their power and instead should understand their duties and responsibilities towards the company and should act in the best interests of the company in the broadest sense.

The concept of 'corporate governance' is not an end; it's just a beginning towards growth of company for long term prosperity.

HISTORY & NEED OF CORPORATE GOVERNANCE:

Corporate governance concept emerged in India after the second half of 1996 due to economic liberalization and deregulation of industry and business. With the changing times, there was also need for greater accountability of companies to their shareholders and customers. The report of Cadbury Committee on the financial aspects of corporate Governance in the U.K. has given rise to the debate of Corporate Governance in India.

Need for corporate governance arises due to separation of management from the ownership. For a firm success, it needs to concentrate on both economical and social aspect. It needs to be fair with producers, shareholders, customers etc. It has various responsibilities towards employees, customers, communities and at last towards governance and it needs to serve its responsibilities at the best at all aspects.

The "corporate governance concept" dwells in India from the Arthshastra time instead of CEO at that time there were kings and subjects. Today, corporate and shareholders replace them but the principles still remain same, unchanged i.e. good governance.

20th century witnessed the glossy of Indian Economy due to liberalization, globalization, and privatization. Indian economy for the 1st time here was together with world economy for product, capital and lab our market and which resulted into world of capitalization, corporate culture, business ethics which was found important for the existence of corporation in the world market place.

DEFINITION OF CORPORATE GOVERNANCE:

"Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders"(*2).

"Corporate Governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company"(*3).

"Corporate Governance is a concept rather than an individual instrument. It includes debate on the appropriate management and control structures of a company. Further it includes the rules relating to the power relations between owners, the Board of Directors, Management and last but not the least the stakeholders such as employees, suppliers, customers and the public at large"(*4).

"Corporate Governance is defined as the system by which business corporations are directed and controlled. It specifies the distribution of rights and responsibilities among different participants in the Corporation such as Board, Managers, Share Holders and other Stake Holders and spells out the procedures for making decisions on corporate affairs. By doing this, it also provides, the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performances"(*5).

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PARTIES TO CORPORATE GOVERNANCE:

Parties involved in Corporate Governance include the Regulatory Body, Chief Executive Officer, Board of Directors, Management and Share Holders. Other Stake Holders who take part include suppliers, employees, creditors, customers, and community at large. In Corporations, the Share Holders delegates decision rights to the manager to act in the principals best interests. All the parties to Corporate Governance have an interest, whether direct or indirect, in the effective performance of the organization. Directors , Workers and Managers receive salaries, benefits and reputation while shareholders receive dividends.

On the other hand customers receive goods and services, while suppliers receive money for the supply of goods and services. In return these individuals provide value in the form of natural human, social and other forms of capital. A key factor in an individual's decision to participate in an organization is to receive fair share of the organizational returns. If some parties are receiving more than their fair return then participants may choose not to continue participating leading to organizational collapse.

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.

The issues are listed as below:

1. Value based corporate culture
2. Holistic view
3. Compliance with laws
4. Disclosure, transparency, & accountability
5. Corporate governance and human resource management
6. Innovation
7. Necessity of judicial reforms
8. Globalization helping Indian companies to become global giants based on good corporate governance.
9. Lessons from Corporate failure

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 (*6).

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 (*7).

CONCLUSION:

In conclusion it may be said that Corporate Governance affects all the Stake Holders in a company – Board of Directors, Share Holders, Executive Management, Employees, Bankers, Customers, Suppliers, Regulators, and Environment and Community at large. Good Corporate Governance may not be the engine for growth, but is essential for transparent and proper functioning of the Corporate Sector. It helps to build confidence of foreign and national investors. These actions of the Governments, Parliament, Regulatory Bodies and Corporate Experts re-affirm the need for better Corporate Governance at the National and International Level.

REFERENCES:

*1. Ranjan. R – B.L.(Hons) Advocate.

*2. Institute of Company Secretaries Of India is a statutory body established by way of an Act of the Parliament known as the Company Secretaries Act,1980.

*3. SEBI is a regulatory authority regulating the stock market . It is a statutory body established in the year 1992 by way of an Act called the SEBI Act.

*4. N.R. Narayana Murthy founder and chairman of Infosys and a corporate expert. He has acted as a chairman of several committees which aimed at improving Corporate Governance.

*5. Organization for Economic Co-Operation and Development (OECD) is an international economic organization of 34 countries founded in the year 1961 to stimulate economic progress and world trade by ensuring sound corporate governance principles. It has formulated a comprehensive definition of Corporate Governance.

*6. Report of the Company Affairs Committee of the Confederation of the British Industry, Page 71.

*7. Report of the Company Affairs Committee of the Confederation of the British Industry, Page 71.

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