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Corporate Governance Practices In India

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Abstract

Whether we take perception of Business or Management education, in both contexts, Corporate Governance has emerged as an important topic for research and practice due to its necessities regarding the effective governance of corporate. The main purpose of this paper is to examine the role & impact of the Corporate Governance practices in MNC's growth & contribution toward Indian economy.Consequently this research will also help us to highlight the current scenario of Corporate Governance Practices in India. After the adoption of new economic policy, Globalization has put many companies to trade globally which has consecutively populated the stakeholders and now there is an emergence to implement good corporate system so as to sustain their business fairly and ethically on a long term and safeguard the interest and have faith of their stakeholders without any geographical barrier. With the growing number of trading globally there is an emergence to frame a benchmark in context to corporate governance to be laid so as to keep thing equal for agreeing MNCs. At the same time the corporate governance convergence is equally indispensable to maintain due to the MNCs belonging to different countries.

Keywords: *Corporate governance, Convergence, MNCs*

1. Introduction

Corporate governance has emerged as an important academic discipline in its own right, bringing together contribution from accounting, finance, law and management. Corporate governance now offers a comprehensive, interdisciplinary approach to the management and control of companies. In recent past corporate governance has been overcame as a significant element for fair and effective practice & management of the entities. Few years ago the corporate world and economy too has witnessed some huge scandals which led to corporate failures, such as WorldCom, Enron, Satyam, Qwest, Global Crossing etc. The market for the MNCs are getting widen due to the globalization. Now the companies are not only limited to their domestic boundaries, in fact the globalization has built a platform to market their business on an international level.

2. Concept of corporate governance

The simplest of definition of the term "corporate governance" is provided by the Cadbury report (U.K.): "Corporate governance is the system by which businesses are directed and controlled." OECD's principles from 2004 give a broad description of what corporate governance means. The definition in the preamble of the OECD (Organization for Economic Co-operation and Development) principles is also all encompassing: "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performances are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring." The CII (Confederation of Indian Industries) report defined corporate governance as "Corporate governance deals with laws, procedures, practices and implicit rules that determine a Company’s ability to take managerial decisions vis -à-vis its claimants - in particular, its shareholders, creditors. There is a global consensus about the objective of good corporate governance: maximizing shareholders' value. "SEBI (Securities and Exchange Board of India) defined it, as" The aim of good corporate governance is to enhance the long term value of the company for its shareholders and all other partners. Corporate governance integrates all the participants involved in a process, which is economic, and at the same time social.

3. Significance of the study

The study has been done in context to Indian economy. After the adoption of new economic policy many MNCs has/have entered into Indian market from abroad and on the contrary many Indian companies have entered another countries boundary. Effective governance always was a challenge for the MNCs because there doesn’t exist any common corporate governance standards which should be followed by all. It has been observed in many entities that corporate governance of the entity lacks somewhere which led them toward committing of corporate scandals. In recent you can take the example of Failure of Satyam due to indulging into corporate scandals. Issues of CG arise because of the separation of ownership from management and control in Modern Corporation.

4. Review of literature

Ananya Mukherjee Reed has evaluates the new Anglo–American model adoption in India and its potential development impact. In her study she was focused on three key areas; growth, shareholders concern & employment. There is a volatility in this Anglo–American model and financial markets plays a major role in this volatility. As after liberalization, financial capital in absence of international regulation has becoming increasingly mobile which is affecting an effective implementation and practice of corporate governance.

The major issue was that, only adoption of any model will not help until it is not implemented and practiced well but every model cannot be commonly adopted in every situation. Thus if governance reforms are to occur, then they have to take place in a larger context of political and legal reform that can enable society to exercise an effective control over corporation.

Lalita S. Som concluded that despite India's best efforts to adopt the best international CG practices, their implementation has remained inadequate due to reasons of path-dependency. This path dependency are ownership concentration, prevalence of Insiders and principal promoters lack of protection for minority Shareholders lack of strict enforcement rights of regulatory Authorities disregard for disclosure norms and transparency are some of the endemic features of Indian corporate governance regime.

Denis & McConnell concluded that country's legal system-in particular, the extent to which it protects investor rights-has a fundamental effect on the structure of markets in that country, on the governance structures that are adopted by companies in that country, and on the effectiveness of those governance systems. Such as protection of shareholders rights in the United States is the strongest in the world, such protection is not seen particularly strong anywhere. But this protection should need to be kept at optimal level so as to leave some space for the improvement and growth.

Shleifer and Vishnyargue state that other countries lack the necessary legal protection to develop good corporate governance systems. In other words, while there is some room for variation in legal protection, there is a reservation level of legal protection that is required if and economy is to have an effective corporate governance system-and this reservation level is not met in many of the world's economies.

David A. Detomasi, have emphasized on the regime formation for the implementation and practicing of effective corporate governance globally. With the help of established international relations theory, the historical state (area)-centrism has been brought down, which will also help in the effective laid down of good corporate governance practices by the, among the MNCs globally. Globalization have put many companies to trade globally which has consecutively populated the stakeholders and now there is an emergence to implement good corporate governance system so as to sustain their business fairly and keeps the interest of stakeholders at good faith without any geographical barriers.

Georges Nurdin concludes in his paper that brings together many facets of an international business's controlling and monitoring functions. Not only have the key levers of today been identified, but also those that will be prevailing in the future with respect to the 21st century challenges. International and cross-cultural winning typologies and models that promote long-term success from its engineering to its controlling have also been identified. Beyond the technical tools and technology that may well look uniform, it has been seen that the international business models are diverse, because the world and the way business is done in different parts of the world is diverse. Furthermore, markets are not machines buying from machines, but people buying from people, and people are diverse and complex with “soft” factors such as cultures and values driving them. Diversity is an invariant constant of humankind. Finally, this discussion has addressed the cultural diversity the way to manage the cultures in relation to the enduring and sustainable international performance of an organization in a comprehensive manner.

5. Research objectives

1. To show the problems & challenges regarding CG practices in Indian context.
2. To highlight the significance and brief subjective knowledge regarding Corporate Governance.

6. Research methodology

The methodology of the present study relied mainly on the web based research, review of the print literature, books, research papers, newspaper and magazines to understand the corporate governance practices in MNCs towards the development of Indian economy.

7. Insight to corporate governance

The initiatives taken by government of India in 1991, aimed at economic liberalization and globalization of the domestic economy, led India to initiate reform process in order to suitably respond to the development taking place world over. On account of the interest generated by Cadbury committee Report, the confederation of Indian Industry (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.

Corporate governance brings about equilibrium between the owners, employees, Customers, and all other stakeholder. It builds continuing bonds with shareholders, employees, investors, depositors, borrowers, suppliers, customers and business constituents. Good governance is integral to the very existence of a company. It inspires and strengthens investor’s confidence by ensuring company's commitment to higher growth and profits. Corporate governance extends b beyond corporate law. Its fundamental objective is not mere fulfillment of the requirement of law but in ensuring commitments of the board for maximizing stakeholder’s value. The real onus of achieving desired levels of corporate governance lies with corporate themselves and not in external measures.

8. Problems and Challenges to Corporate Governance Reforms

Despite considerable reforms for furtherance of CG in India, there still are barriers, as highlighted below:

- Varying provision of corporate governance by SEBI and MCA.
- Frequent amendments of CG norms.
- Lack of board independence in family companies.
- Absence of fully consolidate financial accounts.
- In appropriate size of boards.
- Weak boards.
- Unsatisfactory performance of independent directors.
- Negligence by independent directors.
- Paucity of independent directors.
- Non-evaluation of Board of Directors.
- In adequate attendance in Board meeting.
- In adequate participation in board meeting.
- Ambiguity in role and responsibility of independent directors.
- Unremunerated sitting fees or compensation.
- Deficient performance of auditors.

- Rotation of audit partner or audit firm.
- Cost of rotating audit partner or audit firm.
- Possibility of defaults in joint audit.
- Efficacy of audit committee meeting.
- Inferior quality of audit.
- Absence of Board over sight of audit.
- Flawed design of remuneration and incentive packages.
- Principal – Agent conflicts.
- Constraint on proxy voting.
- Lack of investors protections.
- Lack of provision for Class-Action suits.
- Inadequate and delayed legal mechanism.
- The hazard of accounting legerdemain.
- Recurring insider trading.
- Corruption and incomplete or delayed investigation.

Corporate governance system of an entity has a great significance today in fulfilling the legal, political, economic, social, ethical compliances. But there always persist a question that which corporate governance standards to be adopted. In answer to this, one can observe that Indian economy has a very versatile and diverse culture in regards to economic activities too. One cannot mere just adopt a CG norms from abroad concept and models and start implementing it in their prescribed way, as Indian economy is totally different from any other market behavior. Here the behavior of producers and consumers are totally different. So the convergence in Corporate Governance practices is very much needed by keeping focus on significant element pertaining to Indian market and economy. In 1980's when Indian economy was hit by a crisis due to reasons like low foreign exchange, high fiscal deficit etc. then this led to shift from the Business House model to Anglo – American model of corporate governance. In Business House model, this model was consisting of managing agents who enters into an agreement to manage the affairs of that concerned company. These managing agents capitalized on new business opportunities by promoting new business ventures. The promoters of such ventures became the key players in India's post-colonial business sector providing the basis for the emergence of conglomerates. Whereas after consecutive reforms there was changes in company law, financial and banking sectors, foreign investment and the industrial policy which led to shifting toward Anglo – American model of CG. At present most the companies in India approaches Anglo-American model. There are certain regulators' to keep their eye on practices of companies in context to CG such as SEBI, OECD.

While trading cross countries a lot more of barriers have fallen in path apart from geographical barrier such as legal, political, cultural, and ethical barriers. Every country cannot adopt one single corporate governance system for all due to the above mentioned barriers, so, the corporate governance convergence is very significant in implementing any corporate practices for the effective governance of any corporate and economy too. Now India is great place where large number of MNCs exist in both perspective, that is, MNCs from abroad to India and MNCs from India to abroad. The growth of MNCs especially MNCs who originally belongs to India contribute significantly in the growth and development of Indian economy. A better regulatory and self-regulatory corporate governance frameworks and enforcement mechanisms are being implemented through tougher legislations and corporate governance codes so as to facilitate an eminent governance of corporate.

9. Conclusion

Corporate governance is a celebrated topic in India but not so implemented. If the Indian corporate do not yet employ meaningful corporate governance procedures, they in future may have to pay a heavy cost in raising capital from the more competitive capital market in competition with the globally efficient companies. Moreover, these companies will simply fail to cope with the increasing pressure of other global factors like losing market share of the products to the MNCs, human resource problems in form of losing the best management to the competitors, failure to comply with the requirements of the codes, etc. Thus it is a time for us not to make corporate governance only a corporate philosophy but to make it a corporate practice.

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