Research Paper | E-ISSN NO : 2455-295X | VOLUME : 9 | ISSUE : 3 | SPECIAL ISSUE MARCH-2023

INITIATIVES RELATED TO CORPORATE GOVERNANCE FOR INDUSTRIAL SECTOR IN INDIAN CONTEXT

PRACHI	ASSISTANT PROFESSOR, S.D. COLLEGE OF MANAGEMENT STUDIES, MUZAFFARNAGAR.
DR. SHRAVAN KUMAR	ASSISTANT PROFESSOR, GOVT. COLLEGE SANCHORE.

ABSTRACT:

In the years 2020 and 2021, many concessions were given in the rules, regulations and policy issues for India's corporate sector. In both these years, policy makers and regulators have dealt with a lot of sympathies to the many demands and requests of the industry. However, despite these concessions, the engine of development has not been able to run at the desired speed. In such a situation, under all these arrangements, we should consider those issues in which we could not get success according to the target. Especially in the realms of ESG (Environment, Social and Governance) there is a dire need to pay attention to such shortcomings. One such litmus test is going to be held in the ambit of corporate governance in the next three months. However, it is expected that no further demand will arise regarding relaxation in the rules. India is an important economic power in the world with a huge consumer market. Obviously, India will have to tailor its policy discussions according to the expectations of global investors. Many of these issues can be included in the mainstream national agenda in 2022. In this context, the ability of the regulators to 'stick to their ways' will also have to be brought to the fore. Because India is an important economic power in the world with a huge consumer market. Obviously, India will have to tailor its policy discussions according to the expectations of global investors. Many of these issues can be included in the mainstream national agenda in 2022.

KEYWORDS:

DOMESTIC POLITICS AND GOVERNANCE, INDIA, INTERNATIONAL TRADE AND FINANCE, AOA, CAPITAL, CORPORATE GOVERNANCE, ESG, SEBI.

MEANING OF CORPORATE GOVERNANCE:

Any organization that works in the public or private sector and understands its responsibility towards its employees, customers, common citizens (society) and shareholders and takes care of all these along with the development of the organization, then said It can be seen that the functioning of such organization is being conducted on the basis of ethics.

The fulfilment of moral obligations towards the society in this whole process is called Corporate Social Responsibility.

The concept of Corporate Governance is related to running public and private organizations on the basis of ethics i.e., it is related to ethical based governance.

DIFFERENT MODELS OF CORPORATE GOVERNANCE:

There are several models of corporate governance prevalent globally, which represent the funding of various institutions and the laws and regulations made for the organization, which are as follows-

ANGLO SAXON MODEL (ANGLO AMERICAN):

This model is based on the corporate objectives set by the owners of the organization.

In this, more attention is paid only to the interests of the shareholders.

This model is prevalent in the United Kingdom and the United States.

CONTINENTAL MODEL (FRANCO GERMAN MODEL):

This model sees the firm/company as a collective entity.

In this, along with the interest of the shareholders, social responsibility is also emphasized towards the customers, employees, local residents.

This model is prevalent in India and other continental countries.

JAPANESE MODEL:

The Japanese industrial structure is based on a network of supplier and buyer companies.

The companies are known to have extensive cross shareholding between the members and their main banks.

These organizations have long-standing relationships with various firms and banks that provide them with finance.

FAMILY-OWNED COMPANY MODEL:

This model is run by a family-owned business.

This model is popular in Asian and Latin American countries.

In this, companies owned by families often dominate the market.

THE CHALLENGES

Corporate governance is a combination of systems, principles and procedures for running a company. They provide guidelines on how to operate and control the company in a way that enhances the quality of the company and benefits those concerned in the long run. Here the scope of the people concerned includes the board of directors of the company, the employees, the customers and the society as a whole. In this way the management of the company becomes a trustee for all the other people.

The following challenges exist especially before corporate governance in India-

- In this the balance of executive and non-executive directors is not maintained. An attempt is made here to highlight only the prominent ones.
- Periodic evaluation is not done due to which transparency is lost somewhere and the performances are not result oriented.
- Even after the SEBI committee has issued guidelines for the appointment of an audit committee or given a broad definition of independent directors, the actual situation seems to be getting worse.
- Accountability is limited only to the shareholders or the company, it is not to the society at large. Be aware that the directors have their own interests in mind.
- Due to this there have been many incidents of failures and scams in the corporate sector.
- Cyber threat is one of the most important challenges facing the modern governance system.

Keeping in mind the corporate governance, CSR has been arranged, but in the recent report released by Prime Database on CSR, many problems related to it have been highlighted, which shows that CSR provision has been completely successful in fulfilling its objectives. have not happened.

The benefits of CSR activities do not reach remote areas and rural areas. As a result, the real needy are deprived of their benefits.

DISTRIBUTION OF ROLES OF CMD

In order to improve corporate governance, Indian industry should engage in the exercise of bifurcating the roles of chairperson and managing director (MD) in true sense. According to the rules made by SEBI, the regulator of the securities market, from April 1, 2022, the posts of chairman and managing director (CMD) will have to be separated. This rule will apply to the top 500 units in terms of market capitalization. Originally this rule was to be effective from mid-2020 itself. However, on the request of the industry, two more years were given to comply with this rule. On January 10, 2020, this concession was given regarding the compliance of SEBI (LODR) (Amendment) Regulation 2020. According to the SEBI Chairman's public statement on this issue, "Separation of both the characters will reduce the concentration of unnecessary powers in the hands of a single person".

Family businesses also need to swiftly address concerns about a weak governance structure. These include issues such as related party transactions. Apart from these, they will also have to actively pursue diversity initiatives and whistle blower policies.

FAMILY BUSINESS TOPS

Notably, 300 of the top 500 companies in India are family businesses. One of the big arguments of the industry is that these promoter-executives have started from the ground up and have taken their business to the top. So their wealth is concentrated in these units. Family businesses also need to swiftly address concerns about a weak administrative structure. These include issues like related party transactions. Apart from these, they will also have to actively pursue initiatives to ensure diversity and whistle blower policies. Indeed, the administrative approach or practices of such businesses should reflect the needs of the capital markets of the current era. Meeting and exceeding these standards can achieve a “premium” level of assessment in the process of better processing information about them. Instead of pursuing 'heritage' issues, there will not be much of a response.

For the past few years, several regulatory laws have come to the fore in the Indian industry to strengthen the aspects related to corporate governance. These also include issues related to related party transactions. However, moving forward on this path is still showing reluctance from some quarters. To motivate them, the distribution of the post of CAD can prove to be an important factor.

UNBRIDLED POWERS OF JOINT CMD POST

When the same person holds both the posts, he effectively becomes the center of power. He is the only person who decides everything. Because of his position, he can delay any issue. The chairperson will normally be a non-executive (unless expressly written to the contrary). He will have complete control over the agenda issues of the board. He will conduct the activities of the board meetings. If necessary, he will also have the right to adjourn the meeting. In matters related to the board, he not only decides the agenda items but also answers all the questions and issues. In this context, the MD will 'report' to the Board. The chairperson is the ex-officio chairman of the board. In most articles of associations (AoA), the chairperson has the casting vote in case of a deadlock. If the role of CMD is shared, then in case of any deadlock, that person has the right to vote twice.

The true test of government standards is when the following issues are discussed and decisions are made. These may include issues such as hiring of key managerial personnel, related party transactions, diversification plans for new businesses or radically different product lines.

Many of the board's discussions are related to regular business and rules related issues. The proper test of government standards is when the issues mentioned below are discussed and decisions are taken. These include issues such as recruitment of key managerial personnel, related party transactions, new businesses or diversification plans for completely different product categories. Good results require a sound process involving healthy discussions in board meetings. Before this process, a special sub-committee of the board should be prepared on related issues. For example, the Board Committee on Nomination and Remuneration discusses KMP-related reinstatements. An appropriate approach in this regard would be for the MD (who is a full-time chief executive) to brief the board members on the process, merits and risk factors and make their recommendations. After that the process for the board to discuss with the data points and take a logical decision can take a practical form. Despite the differences on the issue, this whole exercise of bringing up all those points in the discussions of the board can prove to be beneficial.

Alternatively, if the board has a 'puppet' chairperson (basically brought in by the MD), then the exercise of separating the roles of the chairperson and the MD would be futile. Crafty companies may try to circumvent this regulation by appointing an executive vice-chairperson or appointing a family member as chairperson who does not qualify as a relative under the Companies Act, 2013. Any such exercise can defeat the very purpose of such regulation. This regulation can prove effective only if the chairperson has the moral courage and seriousness to stand against the powerful MD.

LONG TERM CAPITAL

With stronger standards of governance, India's corporate sector can look forward to better inflow of capital and support from investors (both in the capital market and private investments). Family enterprises dominate in India. These enterprises struggle to balance the roles and responsibilities of family members in the business with the administrative aspects of professional leadership outside the family. In such a situation, it has to be seen whether such family enterprises can protect their speed of decision making during the business development journey.

Many family businesses in India have a presence in the Indian markets for one or two generations. In such a situation, the changes mentioned above have started a new era of thinking in traditionally family-owned or family-managed businesses. There are valid reasons behind this as well. Numerous research studies have consistently shown that family-owned firms have a higher ability to make long-term decisions and hedge their bets in family businesses than do institutionally managed firms. The ability to get executive level managers from outside the family (non-family C-suites) and independent directors on the board becomes critical. Much of the ability to grow a business or the exercise of keeping business ideas relevant rests on this axis. In fact, business owners are expected to play the role of "promoter-shareholder". This is where the ability to separate your role as chief executive from your role as a manager or administrator becomes critical.

We have already seen that playing a 'puppet game in the board room' can only defeat the very purpose behind these regulations. In such a situation, only time will tell whether the Indian industry has the ability to make these new regulations meaningful or not.

CONCLUSION:

After corporate bankruptcies in the recent past, the need for corporate governance is felt more than ever, not only in the Indian scenario but globally. While the corporate governance system has proved to be effective for the economy and in safeguarding the interest of the shareholders, yet we still need more efficient monitoring, transparent internal audit system, efficient board and management that provide leadership to an effective corporate governance. can do. Also be helpful in promoting the strategic management of emerging new companies and providing stability to the market.

REFERENCES

1. Bailey, A. D. Jr., Gramling, A. A., Ramamoorti, S. (2003). Research Opportunities in Internal Auditing. Altamonte Springs, FL: Institute of Internal Auditors Research Foundation.

2. Be´dard, J., & Gendron, Y. (2010). Strengthening the financial reporting system: Can audit committees deliver? International Journal of Auditing 14 (2), 174–210.

3. Brundin, E. & Nordqvist, M. (2008). Beyond facts and figures: the role of emotions in boardroom dynamics. Corporate Governance: An International Review, 16 (4), 326-41.

4. Cadbury Committee Report (1992). The Financial Aspects of Corporate Governance. Gee and Co. Ltd. London.

5. Carcello, J. V., Hermanson, D. R., & Ye, Z. S. (2011). Corporate Governance Research in Accounting and Auditing: Insights, Practice Implications, and Future Research Directions. Auditing: A Journal of Practice & Theory, 30(3), 1-31.

6. Norwani, N. M., Mohamad, Z. Z., & Chek, I. T. (2011). Corporate Governance Failure and Its Impact on Financial Reporting within Selected Companies. International Journal of Business and Social Science, 2(21), 205-213.

7. OECD Principles of Corporate Governance. (2004). from Organisation for Economic Co-Operation and Development.

8. Parker, L.D. (2007b). Internal governance in the non profit boardroom: a participant observer study. Corporate Governance: An International Review, 15(5), 923-34.

9. Soobaroyen, T., & Mahadeo, J. D. (2012). Do corporate governance codes improve board accountability? Evidence from an emerging economy. Qualitative Research in Accounting & Management, 9(4), 337-362.

10. Turley, S., & Zaman, M. (2004). The Corporate Governance Effects of Audit Committees. Journal of Management and Governance, 8, 305–332.