

Evaluating Corporate Governance Practices and Their Challenges in India

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ABSTRACT

Businesses in today's interconnected world must compete for talent from all over the globe and tap into global pools of cash if they want to succeed. Concerns over effective corporate governance have skyrocketed since the discovery of Satyam Computer Services Limited, India's largest-ever corporate fraud and governance failure. Indian companies are under increasing pressure to implement corporate governance practices and standards that are in line with international principles and standards due to the country's fast economic growth and a number of high-profile governance failure scams that have occurred since the 1990s. This research delves into the significance and difficulties of corporate governance practices in India, specifically looking at how these practices interact with corporate regulations. It does this by doing a thorough examination of secondary data sources.

Key Words: Transparency, Reputation, Challenges, Economic Growth, Business.

I. INTRODUCTION

How companies are led, managed, controlled, and ultimately answerable to their shareholders is the essence of corporate governance. As a result of deregulation of businesses and industries and general economic liberalization, the topic of corporate governance has recently surfaced in India. As a result of the increased competitiveness brought about by the increased speed of globalization, many firms are now pushed to access international financial markets. The significance of better Corporate Governance norms has become more apparent to both politicians and corporate management in recent years. Even though India's corporate governance regulations are among the strongest in the world, they have been negatively impacted by the country's socialist policies and a lack of effective execution since the reforms began. The business environment in India is characterized by concentrated share ownership, as well as pyramiding and tunneling of capital among group firms.

What we call "corporate governance" are the rules, regulations, and procedures that regulate how businesses are run. The processes by which a company's shareholders, managers, and board of directors work together to maintain an open, honest, and responsible business model are all part of this. Rising demands for accountability and transparency from corporations, together with economic reforms and globalization, have propelled corporate governance to the forefront of India's political and social discourse in recent years. Companies in India are under increasing scrutiny for their corporate governance procedures as the country's economic influence grows. The need to ensure that business practices are in line with global norms, protect the interests of investors, and foster long-term economic development is what is pushing for this level of scrutiny.

Multiple watershed events and legislative shifts in India have impacted the development of corporate governance standards. Corporate scandals like the Satyam Computer Services scam in the early 2000s brought attention to the critical need for change by revealing serious flaws in the current frameworks of

corporate oversight. As a result, the government of India instituted new rules and regulations meant to improve corporate governance. Significant contributions to the transformation of the governance environment have come from the Securities and Exchange Board of India (SEBI) regulations and the Companies Act 2013, both of which were enacted by the Ministry of Corporate Affairs. Among other improvements, these policies seek to strengthen the role of independent directors, improve financial disclosures, and increase board accountability.

II. REVIEW OF LITERATURE

Jain, Keerti & Mathur, Neeti. (2022) Using data from a variety of businesses in India, this study compares the degree to which different sectors comply with obligatory and voluntary disclosure requirements on corporate governance. There are studies that look at Indian corporations' corporate governance problems, but there aren't many that look at corporate governance in different industries. This study adds to the existing literature by doing a quantitative examination of the degree of compliance across different industries. To that end, we combed through 2015–2018 data from a large sample of 389 businesses across a range of sectors. While there is no discernible variation in the reporting of obligatory corporate governance items across sectors, the data do show that optional corporate governance item reporting varies by sector.

Rajiah-Bennett, Ishwaree. (2020) All efforts made by a government to improve the living conditions of its people are part of good governance. The idea of Corporate Governance (CG) has been developed and has been a driving force behind the fast-paced evolution of the corporate landscape and the introduction of new rules by international organizations such as the EEC, WTO, OECD, World Bank, etc. In order to guarantee that a business operates efficiently in accordance with strong ethical principles and values, good corporate governance establishes a basic foundation for the culture of the company. The correct organizational framework for management and control is the main emphasis. It lays forth the roles and duties of the many people who make up a corporation, including directors, managers, shareholders, and others. Essentially, corporate governance is concerned with (a) Long-term relationships, which must include managerial incentives, interactions with investors, and checks and balances (a) A business partnership with disclosure and power issues. Establishing baseline requirements and outlining the responsibilities of key stakeholders are central to the majority of the aforementioned definitions of corporate governance.

Almaqtari, Faozi et al., (2020) This research attempts to provide a comprehensive analysis of current practices in corporate governance in India. The research articles included in the study were culled from a total of 161 and were published in 101 journals and 17 publishers' databases. Out of the total number of investigations, 151 looked into problems with the board of directors, 90 at the ownership structure, 64 at the audit committee's characteristics, and 11 at audit quality. Independent boards and audit committees, as well as foreign and institutional ownership, have received the lion's share of attention in India's corporate governance literature, according to the findings. The findings demonstrated that financial performance is a significant focus in previous studies concerning the interrelationships of corporate governance with other domains. Studies using samples collected after 2015 are few, according to the findings. In addition, most research used descriptive statistics or basic regression analysis, and there are a lot of conceptually repeated studies, according to the findings. This study sheds light on the past and future efforts of research organizations, funding agencies, academics, and policymakers (such as the Securities and Exchange Board of India and the Ministry of Corporate Affairs—Government of India). This research adds fresh material to the growing body of work on corporate governance in India.

Academics, research groups, and funding agencies may use it as a roadmap for future study while also drawing attention to the large gaps in our understanding of the subject.

Ramya, S & S S, Ramya. (2017) The idea of corporate governance is relatively new, yet it has already captured the interest of investors, business professionals, and governments worldwide. In the early 1990s, when India was just beginning to open up to the pressures of globalization and competition, a series of crises brought corporate governance into the spotlight. Transparency, accountability, and high performance from company leaders are essential components of excellent corporate governance. In principle, everyone benefits from a well-defined and strictly enforced corporate governance system since it ensures that the business follows both formal laws and generally acknowledged ethical norms and best practices.

Neelakantam, Tatikonda. (2010) Indian corporation law has a history of noteworthy differences in its evolution. India took over one of the world's poorest economies when it gained its independence. However, it also had a strong manufacturing sector that contributed 10% to GDP, four active stock markets (that existed before the Tokyo Stock Exchange) with established regulations for listing, trading, and settlements, a developed equity culture—though limited to the urban elite—and a banking system with established lending standards and recovery processes. So, compared to other colonies, India came out on top in terms of its financial system and business legislation. This was expanded upon by the 1956 corporations Act and other legislation that regulate the operation of joint-stock corporations and safeguard the interests of investors. Good corporate governance is defined as an organization's unwavering dedication to and implementation of ethical practices in all of its interactions with a diverse range of stakeholders, including employees, customers, vendors, regulators, and shareholders (including minority shareholders), regardless of the circumstances. This can only be accomplished by fully committing to certain procedures and checks.

III. RESEARCH METHODOLOGY

Research Design

The purpose of this descriptive research is to provide a clear picture of the significance and difficulties of corporate governance in India. As part of the study, we will scour the current literature on corporate governance in India for relevant articles, and then we will analyze the results.

Data Collection

Secondary sources used to compile the data for this study include scholarly articles, digital databases, published reports, books, articles in various journals and newspapers, conference papers, working papers from various organizations or individuals, website blogs, and so on.

IV. IMPORTANCE OF CORPORATE GOVERNANCE IN INDIA

Transparency, accountability, and ethical behavior inside organizations are strongly influenced by corporate governance in India, which in turn shapes the way businesses operate. The significance of strong corporate governance frameworks is rising rapidly in relation to the expanding and globalizing Indian economy.

Investor Confidence and Market Integrity

Building trust among investors is a key function of good corporate governance, which is why it is so important in India. Building confidence among investors is the result of a well-governed firm adhering to high standards of accountability and openness. The Satyam crisis and other business crises in India have

led to a much stricter regulatory structure, which is meant to safeguard investors and improve market integrity. To reduce the likelihood of fraud and deception, good corporate governance procedures make sure that stakeholders have up-to-date information from organizations. Maintaining investor confidence and attracting local and international investments—vital for India's economic growth—require this level of openness.

Regulatory Compliance and Legal Framework

Making sure a company follows all the rules is another important function of corporate governance. Several rules established by the Securities and Exchange Board of India (SEBI) and the Companies Act, 2013 make up India's extensive legal and regulatory framework controlling company activities. Proper director nomination and assessment, financial information transparency, and ethical procedures are only a few examples of the high standards of corporate behavior that these rules aim to enforce. To lessen the likelihood of regulatory fines and penalties, good corporate governance aids businesses in meeting these regulatory standards and avoiding legal traps. Maintaining the security and trustworthiness of the financial markets depends on companies following these rules, which in turn safeguard shareholder wealth.

Enhancing Business Performance and Sustainability

Companies that practice good corporate governance tend to have more successful and long-lasting operations. Strategic decision-making, risk management, and adaptation to changing market circumstances are all areas where companies with excellent governance processes excel. Decisions should be made with the company's and its stakeholders' best interests in mind, free from political or personal bias, according to effective governance frameworks and boards of directors. Because it aids in navigating complicated corporate settings and aligning operations with strategic objectives, this strategic supervision is critical for the long-term success of businesses. Responsible business practices are encouraged and corporations are ensured to address environmental, social, and governance (ESG) challenges via solid corporate governance procedures, which contribute to sustainability. In addition to improving the company's image, this commitment to sustainability helps ensure the business's continued success in the future.

Promoting Ethical Conduct and Reducing Corruption

An essential component of good company governance is ethical behavior. Corporate governance frameworks aid in the prevention of wrongdoing and corruption by outlining certain expectations for ethical conduct inside firms. To encourage ethical conduct and decrease the occurrence of unethical actions, robust corporate governance measures are crucial in India, a country where corruption has been a major issue. To make sure that businesses are honest and open, governance tools like audit committees that are not part of the company, internal controls, and codes of conduct are essential. Stakeholders' interests, including those of shareholders and workers, are protected by these systems since they help identify and resolve any ethical infractions.

Enhancing Corporate Reputation and Stakeholder Relations

Reputation and relationships with different stakeholders are also affected by corporate governance. Businesses that maintain strong governance practices are seen as more trustworthy and dependable, which boosts their standing in the market. Attracting and keeping consumers, workers, and business partners depends on this excellent reputation. Better stakeholder interactions are another benefit of good corporate governance processes, which guarantee that stakeholders are treated with honesty and responsibility by corporations when dealing with them. Resolving stakeholder problems, strengthening relationships, and cultivating a healthy business culture all depend on this level of participation.

Addressing Corporate Scandals and Building Trust

Addressing business crises and regaining confidence is when the significance of corporate governance becomes very clear. More robust governance systems are required to detect and punish corporate wrongdoing, as has been shown by high-profile scandals. As a result, India has instituted a number of changes meant to make corporate boards more accountable and to enhance corporate governance procedures generally. More stringent rules on related party transactions, more oversight of CEO remuneration, and more disclosure requirements are all parts of these changes. To rebuild faith in the business world and encourage a more accountable and transparent culture, India is working to identify and eliminate the factors that contribute to corporate crises.

Supporting Economic Growth and Development

Lastly, good corporate governance is critical to India's economic development and progress. A stable and appealing business environment is a result of good corporate governance, which makes sure that businesses are running effectively, ethically, and according to all the rules. As a result, investment increases, creativity flourishes, and economic expansion takes off. Companies are more likely to compete fairly and contribute to economic growth when there is a solid corporate governance structure in place.

V. PROBLEMS AND CHALLENGES IN CORPORATE GOVERNANCE

Selection Procedure and Term of Board

The most significant obstacle to effective corporate governance in Indian firms is the selection method that has been implemented. The law mandates a diverse board of directors that includes both executive and non-executive roles, as well as independent members and women. The majority of Indian businesses just follow the rules on paper; most board appointments are still done via personal connections or recommendations from other board members. Nominees for board positions sometimes include friends and relatives of promoters and upper management. No company wants to nominate board members for life because of the various issues they might cause, such as rigid ideology and the accumulation of power. since an added downside, a short-staffed board is less likely to make efficient long-term choices, since its members anticipate being replaced or removed from office in the near future. Consequently, the board's tenure needs careful consideration. Directors on a board of directors usually serve for a short period of time, about two to five years, and it is recommended to rotate certain members at regular intervals rather than replacing the whole board all at once.

Performance Evaluation of Directors

'Guidance Note on Board Evaluation' was published in January 2017 by SEBI, the capital markets regulator of India. Which address all the main points of board assessment, such as the evaluation's scope and methodology, the evaluators' comments and suggestions, the next steps in light of the evaluation's findings, the stakeholders' knowledge and involvement, and the evaluation's frequency and accountability. However, making the assessment results public is necessary to achieve the goals of performance review, and this revelation might land the company in serious difficulty.

Missing Independence of Directors

In 1999, the Kumar Mangalam Committee on Corporate Governance was expected to implement the most significant change in corporate governance via the appointment of independent directors. But in practice, independent directors have hardly made a mark. The majority of firms' directors are still appointed at the promoters' discretion, which raises questions about its legitimacy. Restricting the promoter's authority over independent directors is essential for achieving genuine success.

Removal of Independent Directors

The promoters or majority shareholders may easily dismiss an independent director under the legislation. If an independent director disagrees with the promoter's choice, the promoters will remove them from their position. Directors, in order to maintain their positions, must thereby serve the interests of the promoters. The International Advisory Board of SEBI has suggested more openness in the process of director nominations and removals as a solution to this problem.

Liability toward Stakeholders

Directors in India have responsibilities to the firm, shareholders, other stakeholders, and the environment, according to the Indian firm Act of 2013. It would be a good idea to have all board members present at general meetings so stakeholders may ask questions, but in practice, boards often want to avoid or minimize this type of responsibility.

Founder/Promoter's Extensive Role

Businesses in India are not legally distinct from their promoters or founders; rather, they retain ongoing influence over corporate strategy and operations. Indian businesses run by families have a natural reluctance to delegate authority. By swaying the board and management, they impact the choices. They did this because they owned a disproportionately large amount of the company's stock. In order to address this problem, it would be wise to increase the number of shareholders while decreasing the amount of stock held by the founders.

Transparency and Data Protection

While openness is a cornerstone of good corporate governance, it is not possible to specify what kinds of information must be made public. Disclosing incorrect information in today's fiercely competitive market might have devastating consequences. With the advent of digitalization An important concern in governance is the protection of privacy and data. This can only happen if the board is competent with data and can guarantee that it will be safe from abuse. We might conclude that organizations should provide sufficient resources to safeguard data in light of the significance of data and the possible consequences of data abuse.

Business Structure and Internal Conflicts

The need for several tiers of management, CEOs, and other officials in most business systems further obstructs the path to effective governance. Since data may be skewed at any stage of the chain, it becomes very difficult for firm executives to obtain crucial, reliable information from lower levels and to issue commands to lower levels. The board of directors has the authority to establish sound policies and judgments. However, decisions and policies may also be impacted by the quality of the internal connection between the board and administrators of the firm. Managers with a rebellious streak may undermine company rules and choices across the board.

Environment of Mistrust

The public's and investors' faith in institutions has plummeted in recent years due to a plethora of fraudulent activities, embezzlement of public funds, and corrupt practices, as well as the dubious actions of prominent board members and executives. This is taking place in many places, including government agencies, businesses, and the stock market. As a result, there is a climate of mistrust in the corporate world.

VI. CONCLUSION

Good corporate governance is essential to India's thriving business community. It is impossible to exaggerate the significance of strong corporate governance processes in making sure that firms are open, accountable, and ethical. The need of good corporate governance is growing as India's economy grows increasingly reliant on the global market. Improving governance standards requires tackling issues related to corporate governance, such as director independence, performance assessment, and board selection processes. India can create a more reliable setting for business, lessen the likelihood of corporate scandals, and cut down on corruption by enhancing its governance processes and executing reforms.

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