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NEED & IMPORTANCE OF CORPORATE GOVERNANCE IN INDIA

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ABSTRACT

Corporate Governance has been a central issue in developing countries long before the recent spate of corporate scandals in advanced countries. Corporate governance gained tremendous importance due to economic liberalization and deregulation of industry and business. Another important factor that has been responsible for the sudden exposure of the corporate sector to a new paradigm for corporate governance in tune with the changing times is the need and demand for greater accountability of companies to their shareholders and customers. The concept of corporate governance came in 1980's when several companies collapsed worldwide. Then, at international level and in India – Government, SEBI, RBI and Ministry of Corporate Affairs had done sincere efforts to bring the changes in the operating system of board of directors, financial and non-financial disclosures, compliance with codes of corporate governance, competitive remuneration policy, shareholders rights and responsibilities, internal controls and company's management.

Introduction:

Corporate governance has to bring balance and equilibrium between various stakeholders like owners, promoters, employees, shareholders, customers, creditors, bankers, investors, government and society. The challenge involved in balancing the apparent conflicting interests of various stakeholders is indeed a difficult task. Under the circumstances, corporate governance principles and practices are followed in the true spirit. Corporate governance aim is to minimize chances of corruption, malpractices, financial frauds and misconduct of management. With emergence of global competition, corporate India in general has realized that in order to grow, prosper and compete in international markets, they have to consolidate their strengths and run them most effectively in an efficient and transparent manner by adopting the best practices.

Moving towards better corporate governance

Many Indian companies are groaning under the weight of excess debt. Almost every bank has a mountain of bad loans on its balance sheet. Few of the expensive acquisitions made in the previous decade have paid off for shareholders. Most corporate boards have maintained a studied silence about these issues. The problems in the Indian economy right now are as much about corporate governance as they are about the vagaries of the business cycle.

The recommendations that the committee headed by Uday Kotak submitted to the Securities and Exchange Board of India (Sebi) last week should be seen against this backdrop. The committee has recommended sweeping changes that will make corporate affairs more transparent as well as improve the standard of corporate governance in listed companies. As committee member Krishnamurthy Subramanian told this newspaper, the way to achieve this is by strengthening the three gatekeepers—the board, the auditors and the regulator.

To be sure, improving the standard of governance is an ongoing process, and India has made progress over the years. Committees in the past, such as those led by Kumar Mangalam Birla and N.R. Narayana Murthy, contributed to the process. The Kotak committee has extensively examined the current state and has made recommendations that will help improve governance and enhance investor confidence.

Why is Corporate Governance in India Important?

A company that has good corporate governance has a much higher level of confidence amongst the shareholders associated with that company. Active and independent directors contribute towards a positive outlook of the company in the financial market, positively influencing share prices. Corporate Governance is one of the important criteria for foreign institutional investors to decide on which company to invest in.

The corporate practices in India emphasize the functions of audit and finances that have legal, moral and ethical implications for the business and its impact on the shareholders. The Indian Companies Act of 2013 introduced innovative measures to appropriately balance legislative and regulatory reforms for the growth of the enterprise and to increase foreign investment, keeping in mind international practices. The rules and regulations are measures that increase the involvement of the shareholders in decision making and introduce transparency in corporate governance, which ultimately safeguards the interest of the society and shareholders.

Corporate governance safeguards not only the management but the interests of the stakeholders as well and fosters the economic progress of India in the roaring economies of the world.

Need of Corporate Governance:

The need for corporate governance has arisen because of the increasing concern about the non-compliance of standards of financial reporting and accountability by boards of directors and management of corporate inflicting heavy losses on investors.

The collapse of international giants likes Enron, World Com of the US and Xerox of Japan are said to be due to the absence of good corporate governance and corrupt practices adopted by management of these companies and their financial consulting firms.

The failures of these multinational giants bring out the importance of good corporate governance structure making clear the distinction of power between the Board of Directors and the management which can lead to appropriate governance processes and procedures under which management is free to manage and board of directors is free to monitor and give policy directions.

In India, SEBI realised the need for good corporate governance and for this purpose appointed several committees such as Kumar Manglam Birla Committee, Naresh Chandra Committee and Narayana Murthy Committee.

Importance of Corporate Governance:

A good system of corporate governance is important on account of the following:

1. Investors and shareholders of a corporate company need protection for their investment due to lack of adequate standards of financial reporting and accountability. It has been

noticed in India that companies raised capital from the market at high valuation of their shares by projecting wrong picture of the company's performance and profitability.

The investors suffered a lot due to unscrupulous management of corporate that performed much less than reported at the time of rais-ing capital. "Bad governance was also exemplified by allotment of promoters' share at preferential prices disproportionate to market value affecting minority holders interest".

There is increasing awareness and consensus among Indian investors to invest in companies which have a record of observing practices of good corporate governance. Therefore, for encourag-ing Indian investors to make adequate investment in the stock of corporate companies and thereby boosting up rate of growth of the economy, the protection of their interests from fraudulent practices of corporate of boards of directors and management are urgently needed.

2. Corporate governance is considered as an important means for paying heed to investors' grievances. Kumar Manglam Birla Committee on corporate governance found that companies were not paying adequate attention to the timely dissemination of required information to investors in by India.

Though some measures have been taken by SEBI and RBI but much more required to be taken by the companies themselves to pay heed to the investors grievances and protection of their investment by adopting good standards of corporate governance.

3. The importance of good corporate governance lies in the fact that it will enable the corporate firms to (1) attract capital and (2) perform efficiently. This will help in winning investors confidence. Investors will be willing to invest in the companies with a good record of corporate governance.

New policy of liberalization and deregulation adopted in India since 1991 has given greater freedom to management which should be prudently used to promote investors' interests. In India there are several instances of corporate' failures due to lack of transparency and disclosures and instances of falsification of accounts. This discourages investors to make investment in the companies with poor record of corporate governance.

4. Global Perspective. The extent to which corporate enterprises observe the basic principles of good corporate governance has now become an important factor for attracting foreign investment. In this age of globalisation when quantitative restrictions have been removed and trade barriers dis-mantled, the relationship between corporate governance and flows of foreign investment has become increasingly important.

Studies in India and abroad show that foreign investors take notice of well- managed companies and respond positively to them, capital flows from foreign institutional investors (FII) for investment in the capital market and foreign direct investment (FDI) in joint ventures with Indian corporate companies will be coming if they are convinced about the implementation of basic principles of good corporate governance.

Thus, "International flows of capital enable companies to access financing from a large pool of investors. If countries are to reap the full benefits of the global capital markets, and if they are to attract long-term capital, corporate governance arrangements must be credible and well understood across borders". The large inflows of foreign investment will contribute immensely to economic growth.

5. Indispensable for healthy and vibrant stock market. An important advantage of strong corporate governance is that it is indispensable for a vibrant stock market. A healthy stock market is an important instrument for investors protection. A bane of stock market is insider trading. Insider trading means trading of shares of a company by insiders such directors, managers and other em-ployees of the company on the basis of information which is not known to outsiders of the company.
It is through insider trading that the officials of a corporate company take undue advantage at the expense of investors in general. Insider trading is a kind of fraud committed by the officials of the company. One way of dealing with the problem of insider trading is enacting legislation prohibiting such trading and enforcing criminal action against violators.
In India, insider trading has been rampant and therefore it was prohibited by SEBI. However, the experience shows prohibiting insider trading by law is not the effective way of dealing with the problem of insider trading because legal process of providing punishment is a lengthy process and conviction rate is very low.

According to Sandeep Parekh, an advocate (Securities and Financial Regulations), the effective way of tackling the problem is by encouraging the companies to practice self regulation and taking prophylactic action. This is inherently connected to the field of corporate governance.
It is a means by which the company signals to the market that effective self-regulation is in place and that investors are safe to invest in their securities. In addition to prohibiting inappropriate actions (which might not necessarily be prohibited) self-regulation is also considered an effective means of creating shareholders value. Companies can always regulate their directors/officers beyond what is prohibited by the law".

Conclusion:
It is evident from above that it is essential that good governance practices must be effectively implemented and enforced preferably by self-regulation and voluntary adoption of ethical code of business conduct and if necessary through relevant regulatory laws and rules framed by Govern-ment or its agencies such as SFBI, RBI.
The effective implementation of good governance practices would ensure investors confidence in the corporate companies which will lead to greater investment in them ensuring their sustained growth. Thus good corporate governance would greatly benefit the companies enabling them to thrive and prosper.
Further, in the context of liberalization and globalisation there is growing realization in the emerging economies including India that a country's business environment must be maintained and operated in a manner that is conducive to investors' confidence so that both domestic and foreign investors are induced to make adequate investment in corporate companies. This will be conducive to rapid capital formation and sustained growth of the economy.
Some persons regard certain good corporate practices as 'irritants' to the growth of their busi-nesses since they require the implementation of minimum standards of corporate governance. How-ever, fact of the matter is that the observance of practices of good corporate

governance will ensure investors' confidence in the companies which have record of good corporate governance.

Further, it needs to be emphasized that practices and principles of good corporate governance have been evolved which stimulate business rather than stifle it. In fact in good corporate governance structure what is ensured is that companies must preferably follow voluntarily ethical code of business conduct which are conducive to the expansion of investment in them and ensure good outcome in terms of rates of return.

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