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CORPORATE GOVERNANCE PRACTICES IN INDIA – A STUDY

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ABSTRACT

The primary driver mentioned behind the corporate governance practice is the interest of the stakeholders. Indian corporate governance has taken major steps toward becoming a system capable of inspiring confidence among institutions and increase foreign investors. The overall purpose of study is provide an overview of various components of corporate governance and the conclusion of study is idea about how much important corporate governance is for all types of corporations and how these corporations get benefits from corporate governance practices.

KEYWORDS: Stakeholders, corporate, foreign investors.

I. INTRODUCTION

Meaning of Corporate Governance:-Corporate governance refers to the way by which a corporation is governed. It is the technique which helps companies to maintain the balance between its internal affairs and stakeholders, i.e shareholders, management, customers, suppliers, financiers, government and society etc. provide material and non material information ato its outside parties. Governance means control and corporate governance means to control and managed the corporations. Corporate governance concept emerged in India after the second half of 90s centaury due to liberalization and deregulation of industries and business and was introduced by the Industry association confederation of Indian industry (Cll), as a voluntary measure to be adopted by Indian companies. After that it obtained a mandatory status in early 2000s through the introduction of clause 49 of listing agreement, as all companies (of a certain size) listed with stock exchanges were required to comply with these norms. With the changing time there was also need for greater accountability of companies for their stakeholders.

Need of corporate governance: Need for corporate governance arise due to separation of management from ownership. For a firm success it is necessary to concentrate on both aspects social as well as economic. It needs to protect the interest of stakeholders and to be fair with producers, shareholders, communities etc. It needs to serve its all responsibilities in a best possible manner. Transparency in any business is pre requisite condition for the growth, profitability and stability of any business. The need for good corporate governance arise due to growing competition amongst business in all economic sectors at national as well as international level.

II. DEFINITIONS OF CORPORATE GOVERNANCE

Cadbury committee (1), 1 992 defined corporate governance as such:

- "Corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, auditors, employees and the management"
- "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objects are set and the means of attaining those objectives and monitoring performance"

Definition of corporate governance by the institute of company secretaries of India is as under:

- "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

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discharge of social responsibilities for sustainable development of all stakeholders.

'Objectives of corporate governance

- To eliminate or mitigate conflicts of interest.
- To maintain transparency in the operation of business
- To maintain fairness in dealings of business
- To protect the interest of shareholders
- To develop an efficient organizational culture.
- To aid in achieving social and economic goals
- To mitigate wastages, corruption, Red tapism etc.
- To ensure that the assets of the company are used efficiently and productively and in the best interest of its investors and other stakeholders.

III. PRE REQUISITE FOR GOOD CORPORATE GOVERNANCE

Good corporate governance is primarily based upon the personal beliefs, values and ethics which configure the organizational values, beliefs and actions of its board. The board as a main functionary is responsible to ensure value creation for its stakeholders. It required clearly designed duties and powers of board presence of proper system for guiding, monitoring, reporting and controlling presence of visionary goals and mission to grow the Organization. Pillars of good corporate governance:- The pillars of successful corporate governance are:-

- Accountability
- Fairness
- Transparency
- Stakeholder management

All six are important in running the business enterprise successfully and forming solid professional relationship among its stakeholders i.e. board directors, managers, employees, customers, regulators and most importantly shareholders.

All six are important in running the business enterprise successfully and forming solid professional relationship among its stakeholders i.e. board directors, managers, employees, customers, regulators and most importantly shareholders.

Accountability:- To account is to give a description or depiction of something that happens or happened. Accountability would therefore be taken to literally mean the process of giving and account of an event. The board should communicate to the company's shareholders and other stakeholders at regular intervals a fair balanced and understandable assessment of how the company is achieving its business purpose and meeting its other responsibilities. Accountability is defined as the assignment of responsibility to specified persons or groups within the corporate enterprise for undertaking definite tasks to produce certain results or outcome and holding such persons or groups responsible for doing the assigned task properly.

Fairness:-Fairness means treating all stakeholders including minorities reasonably equitably and provide effective redress for violations, establishing effective communication mechanism is important to ensure just and timely protection of resources and people asset as well as correcting of wrongs.

Transparency:-Transparency means having nothing to hide that allows its process and transactions observable to outsiders. It also makes necessary disclosure, informs anyone affected about its decisions . Transparency is a critical component of corporate governance because it ensures that all of entity's actions can be checked at any given time by an outside observer. Inefficiency and lack of transparency in corporate governance that often lead to scandals and frauds are major challenges facing the corporate world. These have bumpered the smooth functioning of companies and stock markets and have negative effect on the long term investment which is crucial for sustained growth of economy.

Stakeholder Engagement:-Those changed with governance should identify the key stakeholders and how they interact with the business and how they are engaged with to ensure the best outcome for the organization. Committees of corporate governance:

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- Cadbury committee, U. K.
- Green bury committee, USA
- Kings commission, South Africa.

In 1995, Cll confederation of Indian Industry gave code of best practices of desirable code of conduct. Cll code was voluntary code i.e. depended upon the company.

- Blue Ribbon committee, USA
- Flangel committee

In 1999 SEBI formed a committee known as Kumar Mangalam Birla committee on corporate governance under the chairmanship of Kumar Mangalam Birla and gave the report in 2000 and it has certain recommendations and majority of these are mandatory. It is no longer known as Kumar Mangalam Birla but known as SEBI guidelines under clause 49 of listing agreement.

Guidelines

- At least 50% outsiders on Board of directors.
- Audit committee should be independent.
- Remuneration committee should be independent

IV. CONCLUSION

Corporate governance practices are playing an important role in the growth of companies. So the conclusion of study is that this moral practice should have to follow by all organizations for smooth running of business, for formulate good corporate image, to increase the transparency in corporate affairs and at the end to protect the interest of its stakeholders.

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