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Corporate governance framework in India: An overview

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Abstract
Due to the failures and bankruptcies of many well-known corporations in recent decades, corporate governance has attracted considerable attention in both developed and developing countries in the world. Corporate governance is the framework for managing and directing businesses. The governance of corporations is the responsibility of the boards of directors. Therefore, Corporate Governance is separate from the daily operations in the company and hence kept separate from Operational Administration. Corporate governance depends upon the decision of the board of directors of the company. And how does this increase the value of the company in the market. By assuring accountability, transparency, and enforcement in the capital market, good corporate governance policies help to decrease this risk. The present study describes the structure of corporate governance like Anglo-American Model, German model, Japanese model and Indian Model of Corporate Governance, weaknesses, importance as well as the steps to be taken to improve corporate governance in India.

Keywords: Corporate governance, accountability, transparency, enforcement, Anglo-American, Indian Model

Introduction
Corporate Governance plays a vital role in directing and controlling of the companies. The responsibility of the same is discharged by the Board of Directors. The value of the company is distinguished by the directors and full-time executives through analyzing the day to day operations and management of the company. Corporate Governance helps to set a relationship between management, board, shareholders and stakeholders of a company. It helps in setting up the objectives of the company and help in attainment of the same through regularly monitoring the performance. A concrete corporate governance structure helps in creating proper incentives for the board and management. This further helps in attaining objectives that are in the interests of the company. It guides the organization and helps them to attain the goals by optimum utilization of resources.

Corporate governance provides a framework for the management, direction and governance of businesses. Corporate governance focuses on creating environment in the organization that enable managers and directors to act in the best interest of the investors, organization and its stakeholders. The company's managers, board of directors and high-ranking officials are responsible for the provider of capital investment in the company. And they also care about better utilization of funds. It helps in reaching goals and objective ethical corporate governance.

Looking towards its gravity, the Government of India has provided it a special place in statutory framework. Corporate Governance helps to uphold the principles of transparency, integrity, ethics and honesty. It acts as the soul of an organization. Therefore, one must adhere to it while indulging in any business practices.

Review of Literature
(Sawakar, 2018) [4] The research paper is an effort to understand the "Corporate Governance in India Evolution and Challenges". The study highlights the background of Corporate Governance in India and its Significance. The objective of the study is to specify the evolution, regulatory deficiencies, Issues and Challenges for Corporate Governance in India. This paper also discusses about the different Committee on Corporate Governance Reforming the Corporate Governance in India since 1990s and to provide some suggestions bases on study. The study concluded that the post-1991 scams required corporate governance in India. Corporate Governance should be embraced as it has a lot for the Public Sector.

(Mudashiru, A.O. Bakare, & Ishmael, 2014) [3] This study focused on the "Good Corporate Governance and Organizational Performance: An Empirical Analysis". The study highlights the Introduction, Conceptual and Theoretical Framework of good corporate governance. The paper also provided a broad overview on Responsibilities, Functions and Composition of Board of Directors. The study found that the adoption of good corporate governance practices increases transparency of company's operations ensures accountability and improves the profitability of the firms.

(Kulkani & Maniam, 2014) [2] Undertook a study entitled "Corporate Governance — Indian Perspective". The objective behind this paper is to highlight the Corporate Governance and its Constraints in the Indian Context. This study also discussed the Business ethics, internal governance of organization and selection internal or external auditor. The study concluded that "As legal rules are, to a significant degree, endogenous to the political economy context of the systems in which they operate and so are the corporate governance practices".

(Aggarwal, 2013) [1] This study focused on the "Impact of Corporate Governance on Corporate Financial Performance". The objective of the study is to specify the impact of Corporate Governance and its various components. The study found from statistical results that organization's financial performance is significantly impacted by its governance rating. Finally, the author recommends the Companies must understand that improvement and stability in governance is the key of improving the financial performance.

(Srinivasan & Srinivasan, 2011) [5] This study shows that the "Status of Corporate Governance Research on India: An Exploratory Study". The study highlights Origins and models of Corporate Governance. This paper also demonstrates the status of corporate governance research on Indian in the Indian and International journals between the period 2000- 2010.State of corporate governance research on India in top Indian journals and in international literature. Analysis and Comparison between the papers published in International and Indian journals. The study concluded that however more empirical research is needed in the Indian context and also the development of theories rooted in local realities.

Objectives of the Study

- To study the need of corporate governance in India
- To understand the corporate governance structure in India.
- The paper also analyses the Weakness of Corporate Governance
- To know the significance of Good Corporate Governance:
- To provide Suggestions for Good Corporate Governance based on research

Corporate Governance Framework in India

The corporate governance structure in India was designed in such a way that it complies with the international standards. Broadly, the major focus is on describing the following:

- The Companies Act, 1956 provides for checks and balances over the powers of the Board of Directors.
- The Companies Act of 2013 contains provisions relating to independent directors, directors' legislation, general and board meetings, directors procedures, internal and external audit etc.
- SEBI (Securities and Exchange Board of India) SEBI provides protection to the investors and companies also follow the rules and regulations and work according to the guidelines, SEBI also monitors this.
- Accounting Standards issued by the ICAI (Institute of Chartered Accountants of India) which clearly states that ICAI is an autonomous body and issues accounting standards. The disclosure of financial statements is a mandate for the organizations.

Weakness of Corporate Governance

Over the period of time, the Corporate Governance norms have been made more stringent by SEBI. 45% of the corporate houses are dominated with family businesses that makes implementation of corporate governance a bit more complex. The major shareholders get a chance to create their dominance over the minority shareholders. Even the promoters gets an opportunity to make abuse of their power related party transactions (RPTs) as a means for expropriating corporate value. Pre-existing relations also make the establishment of the corporate governance a bit challenging. The family culture has also impended danger over the transparency of independent directors. If they play a passive control in the management, their significance ends up. Most of the organizations lack the awareness about the significance of corporate governance. Even there is no Proper structure of corporate governance which makes every company to adopt some unique structure as per their convenience. Insider trading also impends great struggle in implementation of corporate governance as many internal stakeholders use the data as per their convenience.

Though SEBI is continuously working on making stringent rules for proper implementation of corporate governance, however, they still are not able to adopt a stringent mechanism to catch the culprits. The dominant shareholder for instance, in public sector units (PSUs) where the government is the dominant (in fact, majority) shareholder and the general public holds a minority stake. This makes it a challenging task to implement corporate governance in the organization. The major reason of non-compliance of Corporate Governance is that the fines on violation of the same are so nominal that hardly create any fear in mind of violators. In India it is mandatory for companies to invest minimum 2% of the profits in the last 3 years for CSR activities. However, most of the companies try to avoid such investments.

Steps taken to improve Corporate Governance

Various steps have been taken in order to smoothen the process of implementation of Corporate Governance. Confederation of Indian Industry (CII) is the India's largest industry and business association to examine corporate governance issues. Not only this it also recommends a voluntary code of best practices. The other major initiative was taken by Security Exchange Board of India (SEBI) as clause 49 of the listing agreements. The other major step was Naresh Chandra Committee. This committee provided suggestions in the areas of independent audits and board monitoring of management, as well as financial and non-financial transparency Which helps the company management to run the organization smoothly.

The last major initiative taken was by the Narayana Murthy Committee

The Companies Act of 2013 set a new paradigm and includes

- Independent directors -Independent directors are subject to mandatory board and director evaluation, which must also be official, ongoing and public. An important clause states that the continued service of independent directors depends on their decision elements. Also, the qualifications and competencies of independent directors in listed and unlisted corporations are explained.
- Audit Committees- A broad range of businesses are now allowed to form audit committees. The Chairperson must be able to read and comprehend the financial statements of all publicly traded and unlisted businesses with paid-up share capital of at least Rs. 10 crores.
- **Serious Fraud Investigation Office (SFIO)** -To look into fraud involving the company, the Serious Fraud Investigation Office (SFIO) was established.
- Corporate Social Responsibility - Every corporation must set up a Corporate Social Responsibility Committee made up of three or more directors, at least one of whom must be independent.

In 2017 SEBI has been constituted a committee to raise the standards of corporate governance of listed companies in India. headed by Uday Kotak.

- The Committee recommended that at least half of the directors on the board of a listed company should be non-executive. And in the list of 6 directors, 1 director should be female.
- The committee also recommended that half of the total board members should be independent directors. And the board meeting cannot take place without an independent director. Governance of the company also includes giving an important place to independent directors.
- The committee advised to hold 5 board meetings in a year and at least once a year to discuss the plan, strategy of the company.
- The committee also made many changes to reach out to the small investors for help. And advised the company to put all its information on the website. So that small investors can get information easily. It also suggests publishing the cash flow statement twice a year.

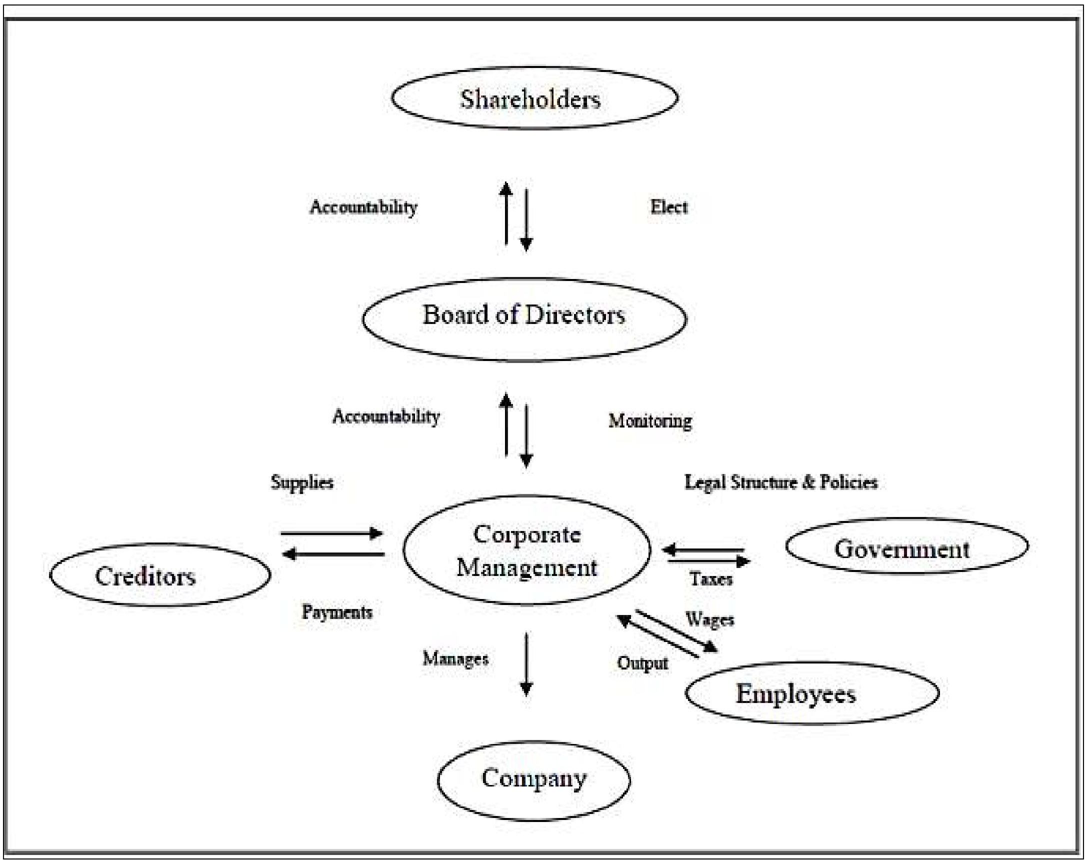
Significance of Good and Effective Corporate Governance

- The ratio of dependent, non-executive directors and non-dependent executives, on the board of directors of the corporation should be balanced so that decisions can be taken in the interest of individual and small group.
- A transparent procedure should be adopted in the appointment of an independent director and new board of directors.
- Transparency of Governance - The Board should provide a fair, balanced and clear assessment of the financial, environmental, social and governance status, performance and prospects of the organization in its annual report. Which is published on his websites. So that investors do not have any dictation in doing research about the company.
- The board should have the responsibility to maintain a good relationship with the investors, shareholders and other stake holders.
- SEBI should take the matter related to insider trading seriously. Because there is a section of insider trading that benefits a lot and the biggest loss is to the small investors.
- The company also needs to disclose financial statements, planning reports, performance reports on time. So that investors do not have any doubts.

Research Methodology

The research design used for the study is of descriptive type keeping in view the needs of the objectives. The data has been obtained by the investigator using secondary research method. The study used a large amount of secondary data which is readily available on websites, many books, and newspapers, magazines, research papers.

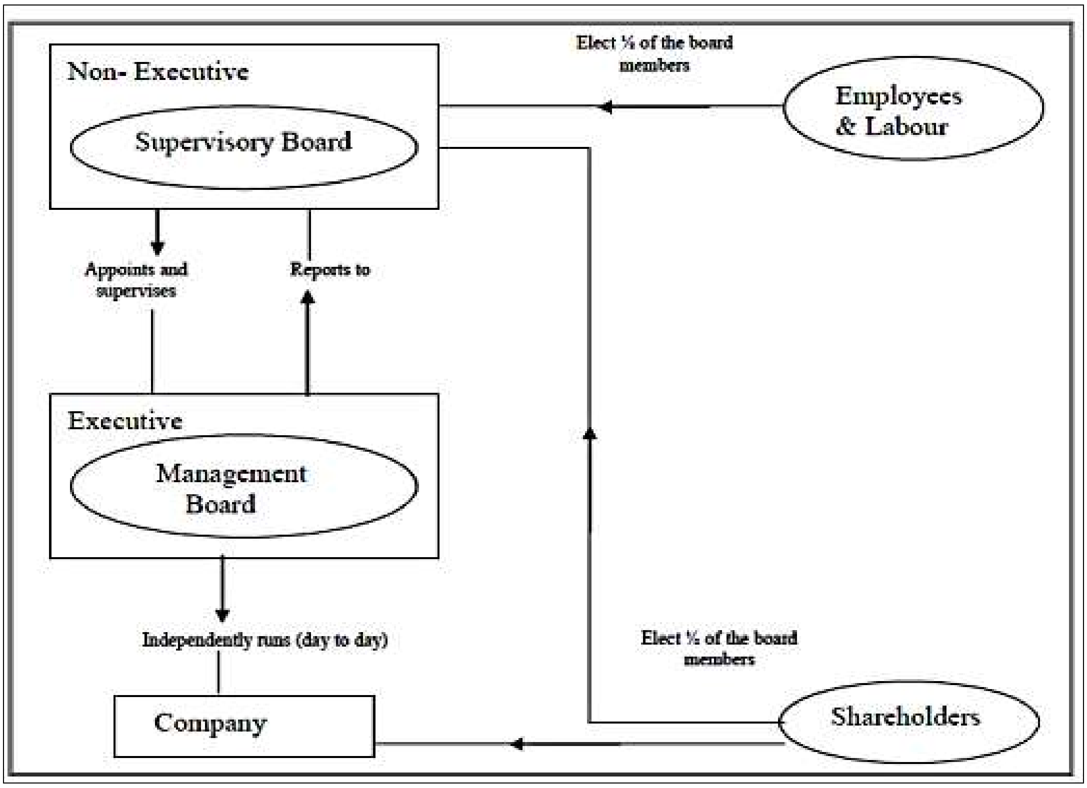
Structure of Corporate Governance



Source: Mallin (2011)

Fig 1: Anglo-American model of corporate governance

The shareholder's role is very important in the Anglo American corporate governance model. The shareholder and the board of directors play an important role in setting up the corporate agenda. All these decision is taken in the Annual General Meeting where approval of the shareholder is mandatory. The Managing Director is elected by the Board of Directors who are responsible for implementing the policy in the corporate and managing the corporate.



Source: Raju (1998)

Fig 2: German model of corporate governance

The Board of Management is responsible in the German model of corporate governance for the smooth running of the company's day-to-day operations, as well as presenting the company's performance, accounts, strategy reports to the supervisory board. In the German model the supervisory board is known as non-executive and the management board as executive. And no member can be a member of both the boards at the same time.

Japanese model of corporate governance

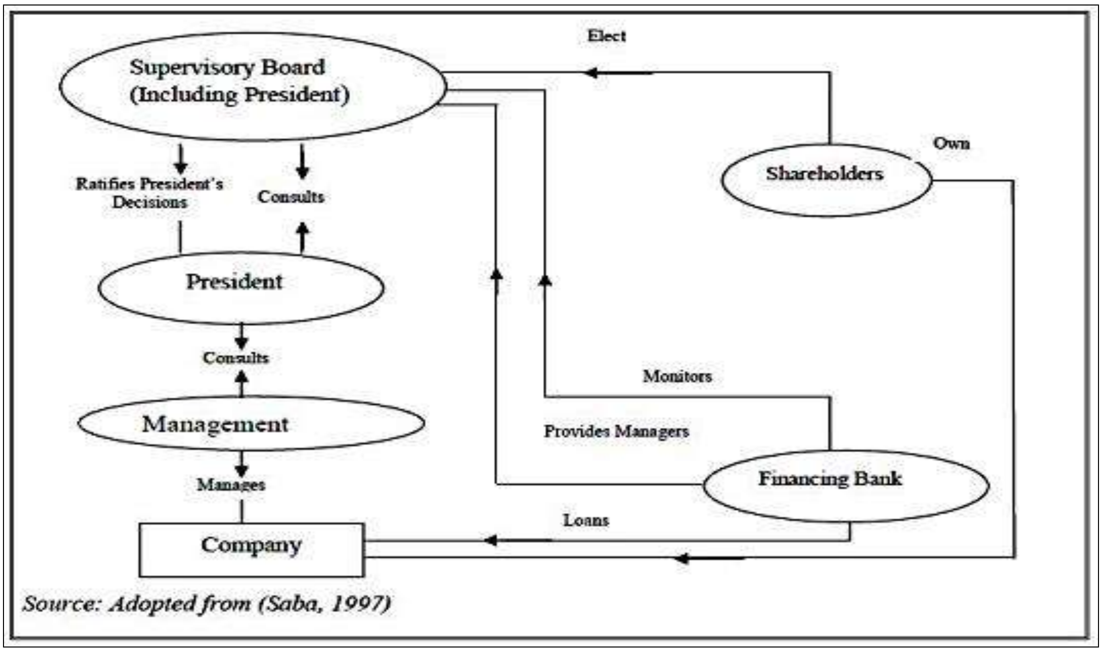


Fig 3: Japanese model of corporate governance

In the Japanese model of corporate governance, shareholders elect the supervisory board, which also includes the president. The Supervisory Board monitors the decisions taken by the President and also makes recommendations for other decisions from time to time. President and management team like manager consult each other to run the company smoothly. The financial institution provides funds to the company as and when required and also closely monitors the supervisory board.

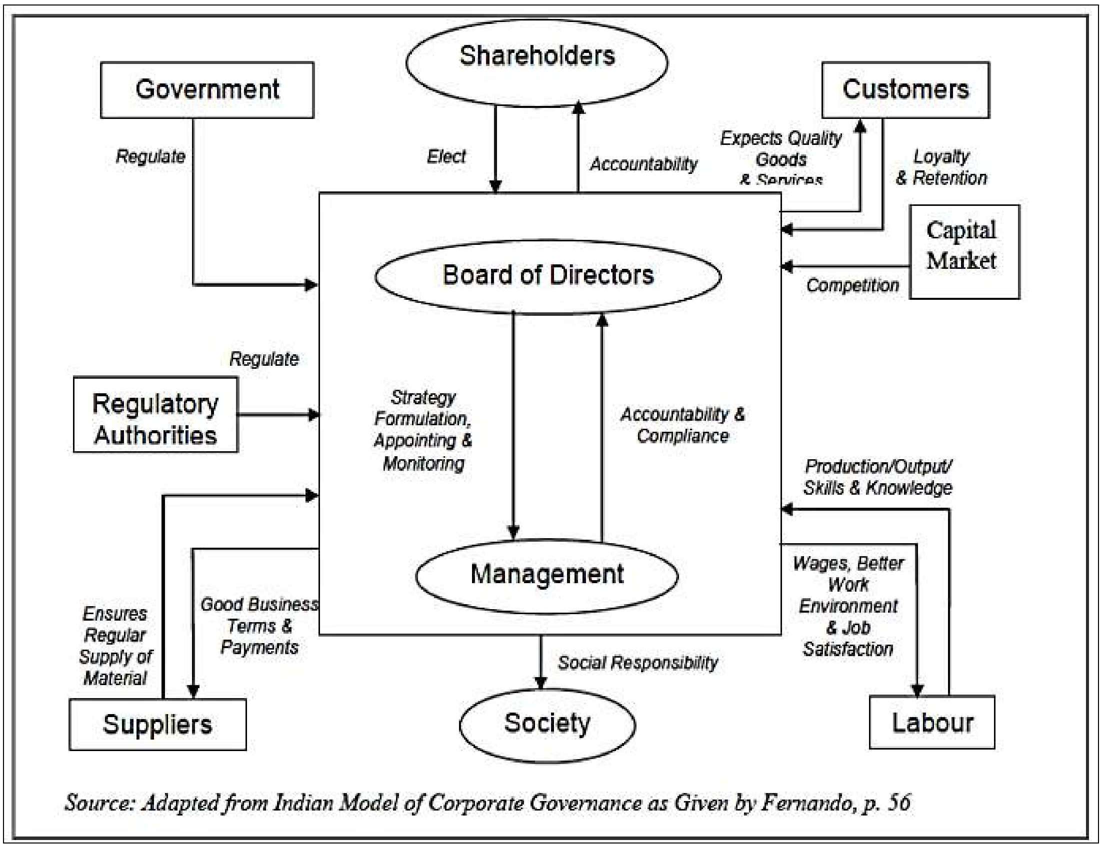
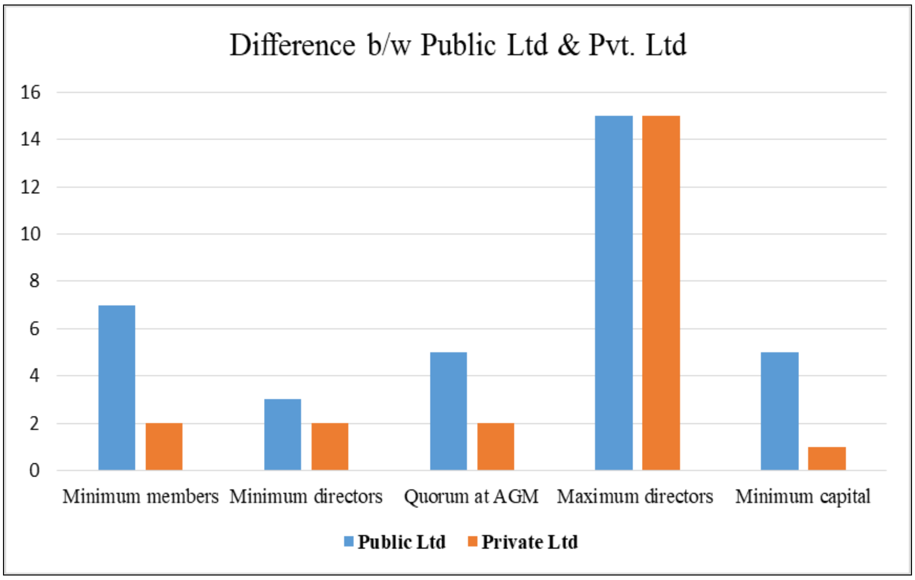


Fig 4: Indian model of corporate governance

In the Indian Model of Corporate Governance, the shareholder has the right to select the board of directors. It is the responsibility of the board members to formulate policies and strategies for top management and to monitor its performance from time to time. From time to time the government, regulatory agencies and stock exchanges keep a watch on the policies, strategies and actions of the companies. So that the company can follow the guidelines given by the government. And the investment of the investors in the company should also be safe. For the growth of the corporation the managers, board of directors work keeping in mind the interest of all the shareholders and investors.

Features	Public Ltd	Private Ltd
Minimum members	7	2
Minimum directors	3	2
Quorum at AGM	5	2
Maximum directors	15	15
Minimum capital	5	1



Source: Researcher Computation

Fig 5: Difference b/w Public Ltd & Pvt. Ltd

A private company is a company that is not listed on a stock exchange. And only a few members have a stake in the company. Public company which is listed on the stock exchange. And the general public can also take their stake in the company. Private company should must have minimum 2 members and maximum 200 members. In public company, there is at least 7 members and maximum number of members in a public limited company is unlimited.

Conclusion

The core of corporate governance is complete openness, honesty, and responsibility on the part of the management and the board of executives. Corporate ethics and conduct lead to the company's positive public image. Though sound corporate governance may not be the primary contributor to the growth of the economy, it plays an important role towards the growth. If Indian companies follow all corporate governance best practices, both domestic and foreign investors will be loyal to invest in them. Regulation alone cannot guarantee the effectiveness of a corporate governance system, and no corporate governance structure should be considered static. The environment in which businesses operate evolves as competition levels rise, and in such a dynamic setting, corporate governance systems must move as well. In today's public markets, when there is competition for scarce capital, failure to implement sound governance practices comes at a high-risk premium. In the end, our administrative and regulatory bodies like SEBI, MCA, etc. will build excellent corporate governance practises in India by enacting transparent and efficient corporate governance rules.

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