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Corporate Governance, Its Needs, Principals and Issues in Corporate Governance in India: A Review

Rachna*

Adharshila Public School

Abstract – Corporate governance is set of principles or guidelines on which a company is governed. It ensures that the corporate works in a way it supposed to work to achieve the desired goals. It makes the corporations accountable to each stakeholder including, directors, shareholders, employees, customers etc. The term governance itself explains the meaning that it is an act of managing a corporate entity. The entity of a corporation is separate from its officials which makes corporate governance an important subject to study. Corporate governance plays an important role to protect the rights of thousands of shareholders, who have ownership in the company but do not play an active role in governing day to day business activities.

Key Words : Corporate Governance, CSR

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INTRODUCTION

Corporate governance is a part of Indian corporate sector since the beginning but corporate governance failure and fraud of Satyam Computer Services Limited increased the concerns about corporate governance in India.

THE NEED FOR CORPORATE GOVERNANCE IN INDIA

In the last decade, corporate fraud and governance failure is occurring frequently which is why we require good corporate governance in the country. India provides proper norms and laws aligned with international requirements to govern a corporate. Some of the important reasons are discussed below which raised the need for corporate governance in India.

- A corporate has a lot of shareholders with different attitudes towards corporate affairs, corporate governance protects the shareholder democracy by implementing it through its code of conduct.

- Large corporate investors are becoming a challenge to the management of the company because they are influencing the decision of the company. Corporate governance set the code to deal with such situations.

- Corporate governance is necessary to build public confidence in the corporation which was shaken due to numerous corporate fraud in recent years. It is important for reviving the confidence of investors.

- Society having greater expectations from corporate, they expect that corporates take care of the environment, pollution, quality of goods and services, sustainable development etc. code to conduct corporate is important to fulfil all these expectations. Takeovers of the corporate entity created lots of problems in the past. It affects the right of various stakeholders in the company. This factor also pushes the need of corporate governance in the country.

- Globalization made the communication and transport between countries easy and frequent, so many Indian companies are listed with international stock exchange which also triggers the need for corporate governance in India.

- The huge flow of international capital in Indian companies are also affecting the management of Indian Corporates which require a code of corporate conduct.

PRINCIPLES OF CORPORATE GOVERNANCE

Corporate governance has evolved around certain key principles, which form the base of rules and guidelines set for the corporate.

Transparency

Disclosure of the relevant information about corporate in timely and accurate manner is necessary. It helps stakeholder to know their rights and day to day activity of the corporate.

Accountability

It ensures the liability of the person who takes decision for the interest of the others. Hence persons like managers, chairmen, directors and other officers should be accountable to other stakeholders of the corporate.

Independence

Independence of top manager is important for smooth functioning of the corporate. Board of Director must work without the interference of any interested party in the corporate.

Issues in Corporate Governance in India

Although there exist many issues in the field of Corporate Governance especially in India, an effort has been made to highlight only the major ones here:

Board performance

The requirement of at least one woman director is necessary, and also the balance of executive and non-executive directors are not maintained. Evaluation is not performed from time to time and transparency is lost somewhere. The performance is not result oriented. These requirements are not always met with.

Independent Directors

Independent directors are appointed for a reason which does not seem to be fulfilled in the current scenario. Even after SEBI guidelines being issued to the corporates, for the appointment of an audit committee or giving of a comprehensive definition of the independent directors, the actual situation appears to be worse.

Accountability to Stakeholders

The accountability is not restricted to that of the shareholders or the company, it is for the society at large and also the environment. The directors are not to keep in mind their own interests but also the interests of the community.

Risk Management

The risk management techniques are to be mandatorily be undertaken by the directors as per the Company Laws and they have to mention in their report to shareholders as well. This is not being done in the most sincere manners required for the job.

Privacy and Data Protection

This is an important governance issue. Cybersecurity has evolved to be the most important aspect of modern governance. Good governance can only be achieved once the directors and other leaders in the company are well known about the hazards in this field.

Corporate Social Responsibility (CSR)

Being among the few countries to legislate on CSR, it is mandatory for companies to invest minimum 2% of the profits in the last 3 years for CSR activities. Otherwise proper reasons should be mentioned in the reports in case of failure. The companies seem to be reluctant towards making such investments.

CONCLUSION

The more the level of corporate governance, the stronger is the company in the eyes of the shareholders of the company. The independent and the active directors are the ones who infuse and contribute towards displaying the corporate as that of having a positive outlook. When it comes to investment, the investors also seek to find the companies with stronger corporate governance in them. The corporate governance requirements in India deliberate the companies to audit their working culture and give the shareholders community a more positive outlook as their actions have moral and legal implications. The new norms after the Companies Act 2013 came into the picture, are very balanced and innovative. They have helped reformed the growth of Indian companies as per international standards.

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Corresponding Author

Rachna*

Adharshila Public School

rachnakajal98@gmail.com