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Corporate Governance Practices in India

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Abstract

Corporate governance refers to the set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the company can be directed or controlled such that it can fulfill its goals and objectives in a manner that adds to the value of the company. "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 discharge of social responsibility for sustainable development of all stakeholders. The main objective of this study is to present the Structure of Corporate Governance in India. Secondary data have been collected and analyzed to achieve the objectives of the study. In the results find and analyze there are main three pillars of corporate governance in India which are namely fairness, accountability and transparency

Introduction

Corporate Governance

Corporate governance refers to the set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the company can be directed or controlled such that it can fulfill its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term. Stakeholders in this case would include everyone ranging from the board of directors, management, shareholders to customers, employees and society.

"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 discharge of social responsibility for sustainable development of all stakeholders."

Concept of Corporate Governance

Strong corporate governance maintains investors' confidence, whose support can help to finance for further growth. Companies who implement the principles and practices of good corporate governance into working environment life will ensure corporate success and economic growth. They are the basis on which companies can grow.

Corporate governance is the corner stone of any good business. It encompasses the processes, practices and policies that a company relies on to make formal decisions and to manage the company.

At a quick glance, good corporate governance will ensure that the board of directors meet regularly, retain control over the business and are clear in the division of their responsibilities, as well as maintaining a system of risk management. The company secretary will be responsible for duties such as ensuring that board procedures are followed and that all pertinent rules and regulations are abided by.

They must also ensure the company keeps Companies House up to date with all necessary filings. Corporate governance can encompass many more duties, although the system of governance will often vary from company to company.

Corporate governance has earned its place as an essential tool in the management and growth of companies, and will continue to grow its importance with time. It is advisable that all companies take steps to increase the quality of their corporate governance systems in order to improve the functioning of the business.

REVIEW OF LITERATURE

Ghosh, A.,(2018) has completed an study related to the corporate governance on the topic of Corporate governance and its relationship with executive compensation in the service sector similarly Mohan, A., (2018) has also done an study related to the corporate governance on the topic of Impact of corporate governance on performance of firms: Empirical evidence from India. Michelberger,K.,(2017) considers the performance of the firms in the study entitled Corporate Governance effects on performance of firms.

Rani, N.,(2009) has also focused over the importance of corporate governance on the topic Role of Corporate Governance on Financial Performance Changes associated with Mergers and acquisitions.

Gupta, Pooja Mehta Sharma, Aarti (2014) has done study over corporate governance and found the benefit of corporate governance on the topic of A study of the impact of corporate governance practices on firm performance in Indian and South Korean companies

Objective of the Study

The main objective of this study is to present the Structure of Corporate Governance in India with special reference to three pillars of corporate governance F – Fairness,A – Accountability, T – Transparency.

Data Analysis and Results

There are main three Pillars of Corporate Governance.

F - Fairness

A - Accountability

T - Transparency

Corporate Governance Framework in India

Generally, Corporate Governance refers to practices by which organizations are controlled, directed and governed. The fundamental concern of Corporate Governance is to ensure the conditions whereby organization's directors and managers' act in the interest of the organization and its stakeholders and to ensure the means by which managers are held accountable to capital providers for the use of assets. To achieve the objectives of ensuring fair corporate governance, the Government of India has put in place a statutory framework.

Regulatory framework on corporate governance

The Indian statutory framework has, by and large, been in consonance with the international best practices of corporate governance. Broadly speaking, the corporate governance mechanism for companies in India is enumerated in the following enactments / regulations/ guidelines/ listing agreement:

The Companies Act, 2013 inter alia contains provisions relating to board constitution, board meetings, board processes, independent directors, general meetings, audit committees, related party transactions, disclosure requirements in financial statements, etc.

Securities and Exchange Board of India (SEBI) Guidelines: SEBI is a regulatory authority having jurisdiction over listed companies and which issues regulations, rulesand guidelines to companies to ensure protection of investors.

Standard Listing Agreement of Stock Exchanges: For companies whose shares are listed on the stock exchanges.

Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI): ICAI is an autonomous body, which issues accounting standards providing guidelines for disclosures of financial information. Section 129 of the New Companies Act inter alia provides that the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under s 133 of the New Companies Act. It is further provided that items contained in such financial statements shall be in accordance with the accounting standards.

Secretarial Standards issued by the Institute of Company Secretaries of India (ICSI): ICSI is an autonomous body, which issues secretarial standards in terms of the provisions of the New Companies Act. So far, the ICSI has issued Secretarial Standard on"Meetings of the Board of Directors" (SS-1) and Secretarial Standards on "GeneralMeetings" (SS-2). These Secretarial Standards have come into force i.e. July 1, 2015. Section 118(10) of the New Companies Act provide that every company (other than one person company) shall observe Secretarial Standards specified as such by the ICSI with respect to general and board meetings.

Key legal framework for corporate governance in India

The Companies Act, 2013

The Government of India has recently notified Companies Act, 2013 ("New CompaniesAct"), which replaces the erstwhile Companies Act, 1956. The New Act has greater emphasis on corporate governance through the broad and board processes. The New Act covers corporate governance through its following provisions:

- New Companies Act introduces significant changes to the composition of the boards of directors.
- Every company is required to appoint 1 (one) resident director on its board.
- Nominee directors shall no longer be treated as independent directors.
- Listed companies and specified classes of public companies are required toappoint independent directors and women directors on their boards.
- New Companies Act for the first time codifies the duties of directors.
- Listed companies and certain other public companies shall be required to appointat least 1 (one) woman director on its board.
- New Companies Act mandates following committees to be constituted by theboard for prescribed class of companies:
    - Audit committee
    - Nomination and remuneration committee
    - Stakeholders relationship committee
    - Corporate social responsibility committee

Listing agreement – Applicable to the listed companies

SEBI has amended the Listing Agreement with effect from October 1, 2014 to align it with New Companies Act.

Clause 49 of the Listing Agreement can be said to be a bold initiative towards strengthening corporate governance amongst the listed companies. This Clause intends toput a check over the activities of companies in order to save the interest of the shareholders. Broadly, clause 49 provides for the following:

1. **Board of Directors**

The Board of Directors shall comprise of such number of minimum independent directors, as prescribed. In case where the Chairman of the Board is a non-executive director, at least one-third of the Board shall comprise of independent directors and wherethe Chairman of the Board is an executive director, at least half of the Board shall comprise of independent directors. A relative of a promoter or an executive director shall not be regarded as an independent director.

2. **Audit Committee**

The Audit Committee to be set up shall comprise of minimum three directors as members, two-thirds of which shall be independent.

3. **Disclosure Requirements**

Periodical disclosures relating to the financial and commercial transactions, remuneration of directors, etc, to ensure transparency.

4. **CEO/ CFO Certification**

To certify to the Board that they have reviewed the financial statements and the same are fair and in compliance with the laws/ regulations and accept responsibility for internal control systems.

5. **Report and Compliance**

A separate section in the annual report on compliance with Corporate Governance,quarterly compliance report to stock exchange signed by the compliance officer or CEO, company to disclose compliance with non-mandatory requirements in annual reports.

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