



Evolution of corporate governance: a comprehensive study in Indian context

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ABSTRACT:

This research paper explores the development and critical role of corporate governance (CG) in India, emphasizing its significance on sustainable development and the responsibility of corporations. Also this paper focuses on the origin of corporate governance around the world, There are numerous events occurring which shows that they are not fit and aligned with the internet of stakeholders. Interests of stakeholders were in danger and individual efforts were required to safeguard and protect it and this led to corporate governance. Through a comprehensive approach that includes various academic fields, this study carefully follows the growth of CG in India. Its early stages began before the 1990s, when businesses were often run by families, transparency of businesses were questioned, to the period after economic reforms introduced in the 1990s, which led to a significant shift towards openness, responsibility, and greater involvement of all stakeholders. The Indian Companies Act of 2013 stands out as a key turning point, bringing India's CG practices closer to international norms and creating a better environment for foreign investments and business expansion. This paper is based on review of articles, research papers and reports of various committees constituted for corporate governance. It shows how Corporate Governance has evolved into a strong framework that reduces conflicts of interest between owners and managers which further supports corporate responsibility and corporate sustainability. This detailed examination reveals the intricate nature of CG in India, the progress made, and the ongoing challenges in integrating Corporate Governance with sustainable development goals.

Key words: Corporate Governance, interest of stakeholders, committees, sustainable development goals

Introduction

Impact of Corporate governance is seen on public & private companies as well as profit & nonprofit organization. Corporate governance is not a new concept; it is as old as trade / commerce. But the term Corporate Governance is relatively new as it has incorporated many new sets of principles to safeguard the interest of stakeholders. The paper thoroughly examines the changes brought by the committees constituted by the government of India to suggest the framework of corporate governance for the organizations. Committees like the Confederation of Indian Industry (CII), Kumar Mangalam Birla Committee, Naresh Chandra Committee, and Narayana Murthy Committee. By analyzing committee recommendations, legal changes, and the roles of different stakeholders, this study makes a significant contribution to the scholarly

discussion on corporate governance. It presents in-depth insights into its development, the regulatory environment, and the effects on the sustainability of organizations. The research argues that a strong governance structure, based on ethical standards and legal requirements, is essential for promoting corporate responsibility and sustainable development. This, in turn, is crucial for India's economic growth and its position in the world economy.

In the international policy discourse corporate governance has gained enough importance as business organizations' involvement are connected with sustainable development goals. Agreement on what exactly qualifies as Corporate Governance is still unclear though, like many important problems. Because we are aware of this situation, we adhere to a broad definition that includes all interactions between the company and "internal" and "external" stakeholders. the development of corporate governance regulations can be seen over time and their impact on Indian corporate governance practices can also be observed.

The term "corporate governance" refers to the procedures, norms, laws, and establishments that guide how businesses and organizations behave, manage, and oversee their activities. It works to accomplish the organization's objective and controls the interactions between all parties involved, including the shareholders and the board of directors. Additionally, it addresses individual accountability by means of a method that lessens the principal-agent issue within the business. Good corporate governance is an essential requirement for creating the desirable investment climate that competitive businesses require to develop a strong position in the effective financial market.

In addition to this a company's stakeholders, the board of directors' members bear primary responsibility for establishing effective corporate governance. A board of directors, chosen by the firm's shareholders, is mandated by law for every publicly traded corporation. Within the context of corporate governance, the board of directors bears primary responsibility for making strategic decisions, reducing risk, and mitigating it.

As mentioned by Alegre et al.(2022) enhanced transparency increased shareholder rights, improved independent oversight of management by the Board of Directors (BoDs), improved economic alignment between agents and principals, and imposed financial accountability on corporate officers and directors, investment bankers, external auditors, and other intermediaries. This is to ensure the integrity, fidelity, and diligence that have all been essential elements of this change. Corporate Governance frameworks have recently been developed by a number of management consulting firms and government policymakers. Globalization-related CG standards were first introduced by the Organization for Economic Co-operation and Development (OECD) in 2004. According to the OECD, Corporate Governance is "a system of interactions between a company's shareholders, management, stakeholders as well as board members,"

Li & Nair (2009) stated that a wide number of academic disciplines are covered under the multidisciplinary field of corporate governance, including accounting, consulting, economics, ethics, finance, law, and management.

Mannar (2018), In India, corporate practices were mainly focused on the finance and audit that affect the business which in turn affect shareholders in terms of morality, ethics, and the law. The Indian Companies Act of 2013 brought forward novel strategies to properly strike a balance between regulatory changes that respect global standards in order to promote foreign investment and support the expansion of the business. The purpose of laws and regulations is to protect the interests of shareholders and society at large by bringing transparency to corporate governance and including shareholders in decision-making.

Khan(2011) states that Corporate governance is not a single concept; rather, it can be interpreted in various ways. The separation of ownership and management in modern firms gives rise to the necessity of corporate governance.

Brown et al, (2004) that the management's interests and those of the shareholders are at odds. The divergent interests of the firm's stakeholders reflect the principal agent dilemma in management and direction related issues. One of the significant steps toward enforcing corporate conduct in India has been the establishment of the Securities and Exchange Board of India (SEBI) in 1992 and its progressive empowerment. A number of committees, such as the Narayana Murthy and Kumar Mangalam Birla committees, have been established, and Clause 49 of the Listing Agreements incorporates their suggestions. The SEBI requires compliance reports on regular intervals from Indian businesses.

Agarwal (2012) Trust is the cornerstone of the idea of effective governance. A company's governing body must be trusted, which implies that each director needs to be trusted if the company is to be trusted. Good governance is based on the principles of integrity, openness, honesty, and prioritizing the needs of the members over individual interests. This viewpoint will probably be supported in the coming years as the demands placed on corporate entities and the difficulties directors face increase.

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Robaina & Madaleno (2020) explained the importance of corporate governance and how Businesses are progressively implementing tactics that mitigate their adverse effects on the environment while concurrently minimizing the depletion of natural and energy resources, which are utilized as inputs in their manufacturing process.

Neelakantam, (2010) it was not until the early 1990s that corporate governance became a priority for Indian companies, and until then, there was no legal literature on the topic. India's system was in severe need of reforms and better governance due to flaws such as unfavorable stock market practices, directors' boards without sufficient fiduciary responsibilities, inadequate disclosure procedures, chronic capitalism, and lack of transparency. The Government's adoption of reformative measures for economic stabilization through liberalization was prompted by the budgetary crisis of 1991 and the ensuing need to approach the IMF.

Mannar (2018), the majority of publicly traded firms and sizable corporate groups in India began as family-owned enterprises, with family members holding executive roles and making all of the important business choices. Additionally, this meant that there was little difference between the company's finances and that of the proprietors' family. However, when the equity markets developed, a large number of these family-run companies listed on the exchanges. But the old-fashioned (ill) governance methods persisted. Even though they were no longer the only owners, promoters still had a disproportionate amount of control over choices. Businesses readily gave loans to group entities, family members were given considerable compensation for their board seats, and businesses made cozy commercial arrangements with friends and family. Public shareholders' rights were openly violated.

Khan (2011), the firm eventually performs poorly as a result of the agency problem, which enables managers to take more private gains. Therefore, in order for businesses to survive and grow over the long run, they require better corporate governance. A company can achieve strong corporate governance by striking a balance between ownership and control as well as the interests of the company's stakeholders. This strategy may assist foster a positive mindset among managers and shareholders and lessen agency issues inside businesses

Clarke (2003) Chinese author who explained the situation of their country regarding corporate governance in his paper that it is evident that the Chinese government does not have such a policy, one essential component of state control over an enterprise must be the use of that control for goals other than the maximization of its wealth as a shareholder, such as the preservation of urban employment levels, direct

control over industries deemed sensitive, or the placement of jobs with political motivations. This in turn leads to a number of issues. First of all, it is difficult to quantify many of these objectives, and there is no clear way to weigh them against one other. This makes monitoring challenging. A conflict of interest arises between the state, as the dominant shareholder, and other stockholders as a result of the policy of ongoing governmental engagement. When the state exercises its authority for objectives other than maximizing values, Minority investors who have nowhere else to get their money back from their investment are taken advantage of by the state.

Ms Swati Parkash & Banerjee (2020) had explained the other circumstances of corporate governance that the Enron, Satyam, WorldCom, and other scandals necessitated the amendment of clause 49 in order to address the issues that led to these firms' demise and the collapse of the corresponding national economies. From 2000 to 2003, clause 49 of the Indian Stock Exchange listing agreement was in force. It included all rules and requirements for the minimum number of independent directors, board members, various committees that were required, a code of conduct, the parameters and rules for the audit committee, etc.

In terms of references to corporate governance, numerous studies already exist that detail how well corporations comply with particular corporate governance principles. Although the iterative development of corporate governance standards is similar in emerging and developed nations, there are differences in the levels of compliance between them.

Mishra & Mohanty (2014) in their study explained and discussed the relationship between corporate governance and financial performance. They took a sample of 141 firms from the A set of stocks listed on the Bombay Stock Exchange of India, which spans 18 industries, the corporate governance concerns in India in order to determine the relationship between corporate governance and financial performance. They created a three-indicator composite measure of corporate governance: proactive, board, and legal. The findings of the stepwise multiple regression using ROA as a stand-in for firm performance showed that proactive indicators and board indicators (CEO duality, board size, composition, number of board meetings, and frequency of attendance at board meetings) have a significant impact on the performance of the company. According to the findings, firm performance can be accurately predicted by the composite corporate governance indicator

Sinha & Singhal (2012) explained the journey of corporate governance in India. India was left with significant wealth gaps, inadequate infrastructure, and limited technological resources upon independence. However, because these industries needed significant financial outlays and having low and delayed returns, the private sector was discouraged from entering in industry. The public sector was created as a result of the private sector give up its business interests. Deregulation and delicensing gradually ensued, though, as the government's management of the public sector businesses in a variety of sectors proved ineffective over time.

OBJECTIVES:

- To know the evolution of corporate governance in India
- To know the regulatory framework and standards for corporate governance in India.
- To know the challenges in implementing corporate governance in India.

METHODOLOGY:

The methodology of this study is descriptive research design and was chosen with the goals and requirements in mind. The investigator used a secondary research method to gather the information. A significant amount of secondary based information, easily accessible on the internet, in numerous books, periodicals, journals, and research papers, was employed in the study.

Committee of Corporate Governance in India:

The journey of reforming structure and standard of corporate governance took place in India in late 1990. There were following committees constituted for this purpose:

1. **Confederation of Indian industry (CII)** :According to Jalwani et al., (2022)(Neelakantam, 2010) a number of actions have been made to facilitate the corporate governance implementation process. The major business and industrial body in India that looks into corporate governance matters is the Confederation of Indian industrial (CII).In 1995, the Confederation of Indian Industries established a task force led by renowned industrialist Rahul Bajaj. The "Desirable Corporate Governance" code was published by the CII in April 1998. It investigated a number of facts of corporate governance, being the first to point fingers at nominated directors and advocate for dilution of state ownership in businesses.

2. **Kumar Mangalam Birla Committee Report:** The second significant effort was made by the Securities and Exchange Board of India (SEBI), which was established in 1999, a committee headed by Kumar Mangalam Birla with the goal of advancing and elevating the bar for excellent corporate governance. As a result The Security Exchange Board of India (SEBI) implemented clause 49 as a significant step for listing agreements.

3. **Naresh Chandra committee Report:** The other next step taken by the government, a committee constituted under the chairmanship of Naresh Chandra. The recommendations made by this committee to improve and strengthen corporate governance in organisation was appointment of independent auditors, board oversight of management, as well as financial and nonfinancial transparency aid in the smooth operation of the business by the management.

4. **The Narayana Murthy Committee Report:** In order to examine how listed businesses are implementing the corporate governance code, the SEBI established a committee headed by Narayana Murthy. Major recommendations of the committee's were appointment of independent directors, disclosures of related party transactions, risk management, appointment of directors and their remuneration, codes of conduct, financial disclosures, and audit committees.

Committees constituted for Corporate Governance in India

Year	Name of the committee	Area covered
1998	Confederation of Indian Industry (CII)	Desirable Corporate Governance- A code
1999	Kumar Mangalam Birla Committee	Corporate governance practices in India from investors perspectives. Recommendations were divided into mandatory and non mandatory categories
2002	Naresh Chandra Committee	A committee was formed to present its report on corporate governance and audit. Suggested percentage of independent director

2003	N R Narayana Murthy Committee	Clause 49 of the listing agreements. Committees suggested best practice for related parties' transactions, use of IPO proceeds risk management and appointment of directors.
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Indian scenario for corporate governance measures:

After reviewing historical records and literature we can state that the evolution of corporate governance in India makes increasing use of democratic values, procedures.

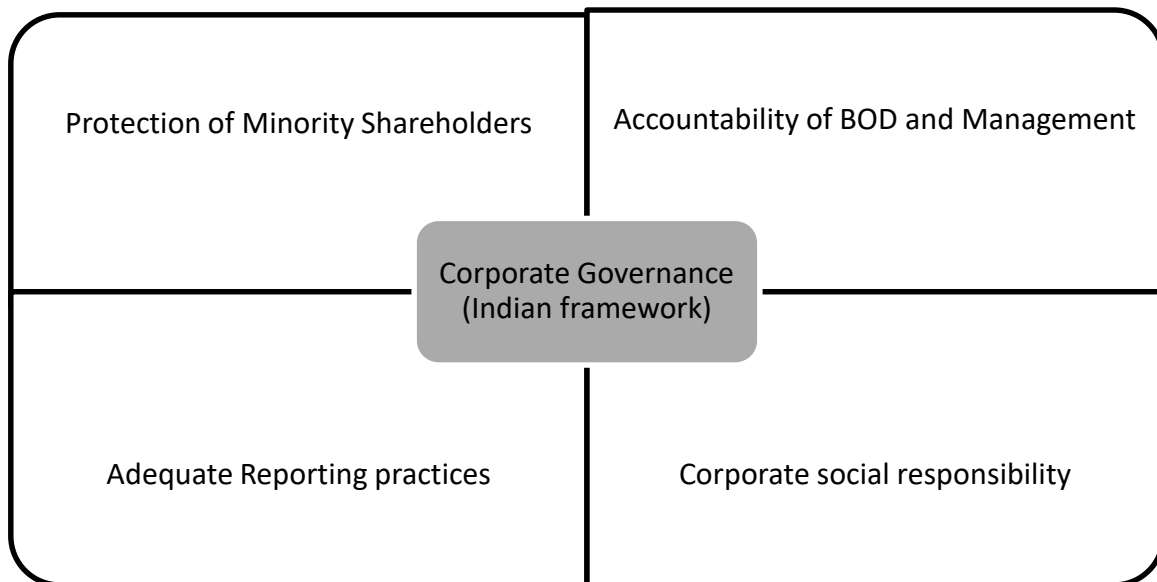
The Indian corporate governance framework focuses on protection of minority shareholders, accountability of the board of directors and management of the company, timely reporting and adequate disclosure to shareholders and CSR.

The regime emphasizes transparency through disclosure and a mandatory minimum proportion of independent directors on the board of each company.

However, as is common in India, the regulatory framework is composed of statutes and regulations that require supervision by multiple regulations.

The following steps lay a significant deal of responsibilities on the shoulders of CEOs of these publicly traded companies to improve the quality of corporate governance in the Indian corporate sector.

1. **Independent directors:** -An official, continuous, and public evaluation by the board and directors is necessary for independent directors. The requirement that independent directors' service be continuous subject to their decision-making components is a crucial provision. There is also an explanation of the requirements and proficiencies for independent directors in both listed and unlisted companies.
2. **Board committee:** The necessity of utilizing board committees to increase the effectiveness of the board has actually been highlighted by previous corporation failures. Committees of the Board are an efficient way to increase standards, give the necessary level of confidence, and receive broader coverage by directors in order to assure better depth of expertise.
3. **Audit committee:** Today, a wide variety of companies are permitted to establish audit committees. The Chairman must be able to read and understand the financial accounts of all companies, both listed and unlisted, that have at least Rs. 10 crores in paid-up share capital.
4. **Remuneration committee:** Since the outside independent directors' knowledge of remuneration patterns in many businesses and industries is significant, the committee is composed of independent members. Having a suitable compensation plan that can draw in, keep, and inspire directors to work toward the company's long-term objectives is the compensation committee's most significant responsibility. Clause 49 of the Listing Agreement states that the creation of a compensation committee is not required in India.
5. **Serious fraud investigation office:** The Serious Fraud Investigation Office (SFIO) was set up to investigate fraud involving the corporation.
6. **Transparency and Disclosures:** In its yearly report, the Board ought to present an impartial, well-rounded, and transparent evaluation of the organization's financial, environmental, social, and governance state, performance, and future prospects. This he posts on his websites in order to provide investors complete control over their investigation of the company.
7. **Frequency of attendance in board meetings:** According to (Brown et al., 2004) Independent directors' regular participation at board meetings indicates that they are taking management oversight more seriously and actively. Research indicates that increased firm valuation occurs when directors participate in at least 75% of the meetings.



(Source: prepared by the researcher)

Challenges/ issues in corporate governance in India:

1. One of the biggest reforms suggested by the Kumar Mangalam Birla Committee was the appointment of independent directors. till now, appointments of directors are administered by the promoters.
2. Removal of independent directors is a discretionary decision of promoters. This impacts the working of an independent director, hence the objectives of corporate governance are also adversely affected by this.
3. Internal conflict in organization is one of the major issues.
4. The foundation of corporate governance is the idea of transparency, yet it is not clear what information must be published or kept private. Giving false information can be quite risky in the fiercely competitive world of today.
5. The executive management and board of directors of a company should be living up to their words. Credibility can be gained by senior management by acting as they speak. Additionally, this has a direct impact on organization morale
6. Business law is not the only aspect of corporate governance. Beyond merely meeting legal obligations, its goal is to guarantee a commitment to transparent management in order to maximize shareholder value.
7. One of the main obstacles to strong corporate governance is the selecting process used by Indian companies. In order to practice law, a balanced representation of independent, female, and executive directors is necessary. Board appointments still happen via word of mouth or recommendations from other board members; most Indian corporations still only follow the law on paper. A prevalent practice in board appointments is the appointment of friends and relatives of promoters and management.

CONCLUSION:

The process of corporate governance's evolution in India is complex and dynamic, and it has undergone major changes throughout time. We have examined how legal frameworks, historical background, and current developments have shaped corporate governance practices in India in this research paper. Based on worldwide best practices, investor engagement, and regulatory reforms, our analysis shows that India has significantly improved corporate governance standards. Transparency, accountability, and moral behavior among firms have been greatly enhanced by the enactment of important laws like the Companies Act, 2013 and the creation of organizations like the Securities and Exchange Board of India (SEBI). In addition, the

advent of independent directors, audit committees, and shareholder activism has enhanced corporate governance systems and given stakeholders more influence. However, issues like related-party transactions, ineffective boards, and enforcement gaps still exist, requiring ongoing monitoring and reform initiatives. In the future, technology developments, sustainability requirements, and changing stakeholder expectations will likely have an impact on how corporate governance develops in India. In conclusion, corporate governance in India has advanced, but it is still a work in progress as businesses negotiate an increasingly complicated and linked global world. India may improve its standing as a desirable location for investment and long-term economic growth by promoting a culture of honesty, openness, and responsible stewardship. Establishing a governance system that promotes long-term investment would require continued cooperation between regulators, corporations, investors, and civil society. As suggested by the researchers and intellectual the process of corporate governance includes four Ps are people, purpose, process and performance. India is in the process of improving a healthy relation among all 4 Ps.

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