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CORPORATE GOVERNANCE IN INDIA

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Abstract

Corporate governance is the process of setting up certain rules and regulations, in a motive to have absolute control and bringing up positive changes in the firms that would help in enhancing the value of the company and thereby attracting more foreign investors to infuse capital to expand and grow the business. This process involves setting up benchmarks' standards, and guiding principles for the senior management team to meet the best interest of the shareholders. Most often the guiding principles and rules and regulations are drawn from the socio, regulatory and market environment framework. These perspectives define the goals, objectives and tasks for the organization to run the company effectively and efficiently. These processes not only facilitate the company in maximizing the profit, but also benefits the shareholders, employees and its consumers in the long run. With corporate governance mechanism, it's very easy to identify the inclusion of rules and procedures in taking a decision on the corporate affairs where the rights and responsibilities are divided among the board of directors, shareholders, creditors, auditors, regulators, mangers and other stakeholders. Nevertheless, the Corporate governance saw failures in its performance that was caused different scams such as stock market, the UTI and, satyam. These were highly criticized by the shareholders and aftermath came the concept of transparency into existence. Thus, it shows the corporate governance is not just about administration but it focuses on monitoring the decisions, the actions and the practices of the corporation by ensuring fair and efficiency on the interest of the shareholders by bringing transparency in the corporate management system in order to positive changes in the long run.

Jel Classification: G34, L25

Keywords: Corporate Mechanism and performance, shareholders and transparency

Objectives

1. To study the importance and the emerging challenges of Corporate governance in India
2. To analyze the corporate practices in India
3. To understand the performance of corporate governance with the help of TCS company.

Research Methodology

The study is all about how corporate governance performance has supported a country like India in attracting the investors and to enhance the performance of the company's function to achieve goals and objectives. This research paper is fully based on secondary data where information is collected from various sources.

Corporate Governance: Meaning, Principle and Its Importance

Corporate governance in India is a platform where there is a set of internal rules that has a control over the function, procedures, and policy which leads to the creation for the different framework in which the operations are carried out in a way and deals with stakeholders. For example: employees, government, industry, customers, and management. The basis of a policymaking should always include that are in terms of honesty, integrity, transparency, and ethics. Corporate governance is important for any organization and must be followed and accepted by the stakeholders before indulging in any business practices. For a country like India, it is a proud moment especially for the corporate world with an estimation of about 12 Indian companies that are included in the Forbes list with the overall total of 2000 best-regarded firms. According to Meghna Thapkar and Arjun Sharma said a company has a good corporate system, when it automatically enhances or boost up the confidence of the associate stakeholders who are among the company. According to this research, an independent director would always have the confidence in contributing to the positive changes that would indeed help the company to enhance itself in the financial market and also having a positive impact on influencing the share prices in the long run. Corporate Governance will always act as an important factor which helps the foreign institutional investors in deciding which company to invest on. A good corporate practice in India is shown with the help of functions of the audit and finances which is based on the ethics, morals and legal implication on the business ventures and its positive or negative impacts on the shareholders overall. In the year 2013,the Indian companies Act was introduced in the motive to generate measures that would help in creating an appropriate balance between the regulatory reforms and legislature that helps in enhancing the growth of the business enterprises and as well as to increase the foreign investment with the mindset of international practices. There are many rules and regulation that helps in increasing the involvement of many shareholders to take the right decision for proper performance and bringing up the concept of transparency for a good corporate governance which ultimately leads in safe guarding the interest of the stakeholders as well as the society. One of the advantages of a corporate governance is that it not only safeguards the management system as a whole but it helps in taking care of the interest of the stakeholders in the long run bringing in positive changes in the economic progression and growth in the Indian economy.

Corporate governance is needed in a country like India because of the following

1. It helps in spreading the shareholders around the world. Most of them do not confined under any rules as a result it becomes an unethical code of conduct and would not be able to tackle the uncertainty and risk that may come across them.
2. ” Changing Ownership Structure” means that in the present-day situation a lot of institutional investors and mutual funds have changed and got converted into large shareholders. So, therefore, these investors have posted a great challenge which has to be investigated and various policies must implement to have good governance.
3. “The corporate scams or scandals”. The corporate management is going through a lot of scandals and scams in day to day practices. So, it is important to boost up the confidence of the investors so that the corporate sector can be one of the reasons for the development of the economy.
4. Fourth is the greater expectation of the society of the corporate sector. In today’s scenario it has been seen that the society has huge expectations on the corporate sector in terms of better quality, pollution control, utilization resources, and reasonable prices. To meets these demands a code of conduct should be established for proper corporate governance and good management of the company in both economically and socially terms. The five are hostile takeovers. This shows the need for corporate governance with an efficient code of conduct in the corporate world management.
5. And the last is the Globalization, Corporate governance is needed by the Indian companies that are included in the international stock exchange list.

Principle of Corporate Governance:

1. Transparency: It means that the one quality that enables to understand the truth with ease. Seeing it in terms of corporate governance means that a piece of proper accurate information with adequate and timely operation must be done in the corporate enterprise to the stakeholders. The fact is that it forms a base for corporate governance to perform which helps in creating confidence in the mindset of the shareholders and investors.
2. Accountability: It refers to deciding the interest of the others. So, if we notice in the terms of corporate governance, accountability refers to the responsibility of the board of directors, proper usage of resources in the best way to respond to the interest of the company and its stakeholders.
3. Independence: this is required for corporate governance to perform better in the top management system. The corporate foundation should be so strong in a way that it can take the right decision in the company’s interest.

Importance of Corporate Governance

It is important because of the following factors:

1. Risk mitigation and compliance

It has been seen that risk mitigation and compliance are directly proportional to each other. For example, if the company is under the sound principle in the long run, then it would work on a natural basis meaning with the effort of doing things efficiently and ensures that there is a proper agreement with guidelines and laws. The main motive is to have a tract on these policies and guidelines that would help a company to save itself from any uncertainty thus making it a risk mitigation mechanism. It is considered that if a company follows all the regulation and rules in a disciple manner can have the ability to tackle up any risk that comes in the way in terms of political, technological and economic events.

2. Enhances shareholders value

Even though there is no such relation between the market value of the company and corporate governance, but it plays an important role in enhancing the satisfaction of the shareholders. Corporate governance helps in protecting the valuation of money of a company because after all the main function is to fulfil the interest of the stakeholders and to bring in the goal of satisfaction. Any unlawful incident can destroy the value of the company so it's important to have internal control over the functions.

3. Better image during economic downturns.

During the past few years, it has been seen that there is a lot of fraudulent activities taking place especially in the banking sector which is not true. The organization should ensure the people by making them believe in the governance practices. Trustworthiness plays a very important role in keeping a strong foundation in upholding the company's status even during the time of uncertainty and risk.

4. Improved organizational efficiency

Corporate governance is one of the important factors in bringing up today's industrial competitiveness. A company with better governance can lead to efficiency and enhances corporate performance. This ultimately leads to development in the economy with better economic results. It acts as a foundation for the function and behaviour of the company, ensuring better utilization of resources, bringing out product-service innovation, and having overall better corporate strategies.

5. Crucial during mergers and acquisitions

Corporate governance in India has played a very important role at the time of restructuring the phenomenon that includes such as mergers and acquisitions. To only corporate governance can show a difference between good deals and a bad one, but on the other side it has been seen that M&A activity which is followed by the company with better governance has established itself to be good in the eyes of stakeholder's market.

One of the main qualities of mergers and acquisitions is that they can enhance the power and making them better in terms of quality and improving the function of corporate governance of the organization.

Corporate Governance Practices in India

Corporate governance initiatives consist of two regulators. The first one is the Ministry of Corporate Affairs and SEBI (Securities and Exchange Board of India. SEBI function is to regulate and monitor the company's activities through clause 49. This clause is important and is included in the agreement list of stock exchanges with various companies and they have abounded with these provisions stated. On the other hand, the MCA function is to facilitate law enforcement agencies and non-governmental organizations, ideas, and solutions among the corporate leaders and to facilitate the exchange experiences. It appoints committees and forums such as the Non-for-profit trust and National foundation of corporate governance (NFCG).

Regulation

The old Companies ACT 1956 was changed and got converted into The Companies Act, 2013 with the contentment of the president of India. It was initially enacted on 12th September 2013. The new act was based on a proper enhancement of corporate governance in reporting and transparency with new compliance norms.

Other than this there are so many regulations that were enhanced and changed to have a better function of corporate governance. For example, the Monopolies and Restrictive Trade Practices Act, 1969 which then got converted into The Competition Act 2002, the Foreign Exchange Regulation Act 1773 was converted into the Foreign Exchange Management Act in the year1999 and other legislation also follows corporate governance principles. It has been seen that various regulators and Non regulating bodies have also come with new codes and principles that confine to the principles of corporate governance. Naresh Chandra Committee was appointed by the Ministry of Finance in the motive to examine various issues that are being witnessed in the corporate governance system that includes companies' relationship, defining the road of directors so on and so forth. Now SEBI appointed the Narayana Murthy Committee in the year 2013. This was done to protect and analyses the issues by giving recommendations to improve them. For example, the audit reports, risk management, independent directors, code of conduct so on.

Board of directors

The concept of independent directors in the listed companies by providing them with compensation was first initially introduced by "The Desirable Corporate Governance Code by CII in the year 1998." A company should always consist of independent directors that occupy one-third of the board which was the idea given by the Kumar Mangalam Birla Committee which was formed in the year 2000. It further added that there should be a combination of executive and non- executive managers with 50% of them to be on Board.

Audit Committee

This is created to analyse the board's oversight function and acts as the body to have an effective over "risk management mechanism, proper functioning of the internal and external audit, and to have an impact on the anti-fraud mechanism". According to the Kumar Mangalam Birla Committee and the Narayana Murthy Committee stated that the audit committee should include independent directors with enhancing and formulating power, functions, policies of the Audit.

Role of Institutional Investors

India is becoming a fast-emerging economy that has attracted the largest shareholders as well as the Indian financial institution with global ambition. This has led to a position of having progress in the standards of corporate governance in the eyes of the investee companies. Many studies show that a company with a good governance system has enhanced itself to have a positive impact on the risk management system and helped in generating high risk adjusting returns to the shareholders. For a company to have investors, it will try to improve its governance level with the best policies and principles practices. India should adopt OECD Corporate governance principle to have best practices. In a country like India still follows corporate ownership so, therefore, is important to treat all the shareholders in both foreign and domestic in an equitable manner.

Stakeholders Relationship Committee

According to the Kumar Mangalam committee stated that a board forum should be formed under the head of non-executive directors to investigate the matters or issues that are faced by the shareholders. For instance, taking into consideration the complaints made on the bases of non-receipt, transfer of share, dividend, etc. This was created in the motive to solve all the grievances of the shareholders and to bring the proper system in having a good governance in the company.

Risk Management system

This was propounded by Narayana Murthy Committee which suggested that a report must be laid down to inform all the board members regarding minimization of procedures and as well providing risk assessment. The procedures are overlooked and are analysed periodically by the Risk Management Company to control risk.

Corporate Governance in TCS company: 2019-2020

TCS company has brought up various business strategies to build in the stronger foundation in terms Accountability, transparency and following an ethical code of conduct between the investors, the consumers, employees, regulators and so on. The company has adopted a stronger corporate practice to enhance the efficiency of the company. A code of conduct is established for all the employees including the managing director and the executive directors as well. Various rules and regulations are set up according to the Companies Act 2013. The company ensures a proper utilisation of IT resources with the help of Information Security Policy.

The Committees of Board:

1. Audit Committee: The committee follows the rules and regulations that cited in SEBI listing Regulations 18 and section of 177 Act. The main function of the Audit committee is look after the efficiency of internal control over the financial operations and to have a proper analysis on the risk management system. Approving policies based on the performance report that is submitted in the board meetings.
2. Nomination and Renumeration Committee:
   The committee follows the rules and regulations that cited in SEBI listing Regulations 19 and section of 178 Act. This committee's main function is to set up board composition with committees. The members are giving the power to recommend appointment for the directors. To help independent directors with the evaluation of performance

throughout the years. And also, to follow the renumeration policy among the Directors, Employees, and the Executive Teams.

3. Stakeholders Relationships Committee:
The committee follows the rules and regulations that cited in SEBI listing Regulations 20 and section of 178 Act. The committee takes care of the grievance of the shareholders and bring up activities that are related to the health safety and initiatives with sustainability and better performance of the company.

4. Corporate Social Responsibility Committee:
The main function of this committee is to bring in strategic management that would help in achieving the goals of the company. They have the authority to recommend and to have a proper analyse on the expenditure incurred mentioned as per the policy. Monitoring the CSR policy is very important.

5. Risk Management Committee:
The function of this committee is to take care of the risks and to bring in strategic changes which would enhance the management system of the company with the better implementation of cybersecurity. The risks can be in the form of foreign exchange risks, data privacy risks based on which the policies are initiated.

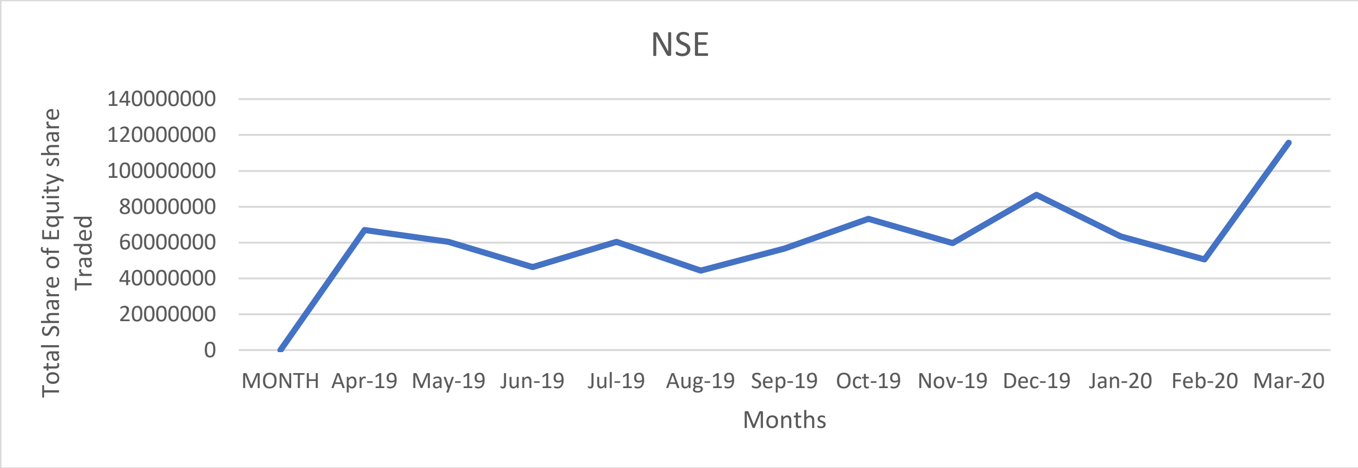
6. The Executive Management Company
They review a proper analysis based on the financial projections and cash flow, capital ad revenue, and expenditure programmes. This helps in planning and bringing out better performance in the long run

Market Price Data:

	NSE	***BSE***
MONTH	**Total Share of Equity share traded (Rs)**	**Total Share of Equity share traded (Rs)**
Apr-19	6,70,89,639	32,32,471
May-19	6,04,80,346	28,56,620
Jun-19	4,62,80,351	20,60,686
Jul-19	6,04,41,617	43,00,813
Aug-19	4,44,49,609	20,88,400
Sep-19	5,67,52,600	23,49,328
Oct-19	7,32,72,420	25,13,929
Nov-19	5,97,54,775	23,41,916
Dec-19	8,66,34,118	37,28,749
Jan-20	6,33,70,917	24,60,473
Feb-20	5,06,45,330	22,64,640
Mar-20	11,56,41,660	54,05,600

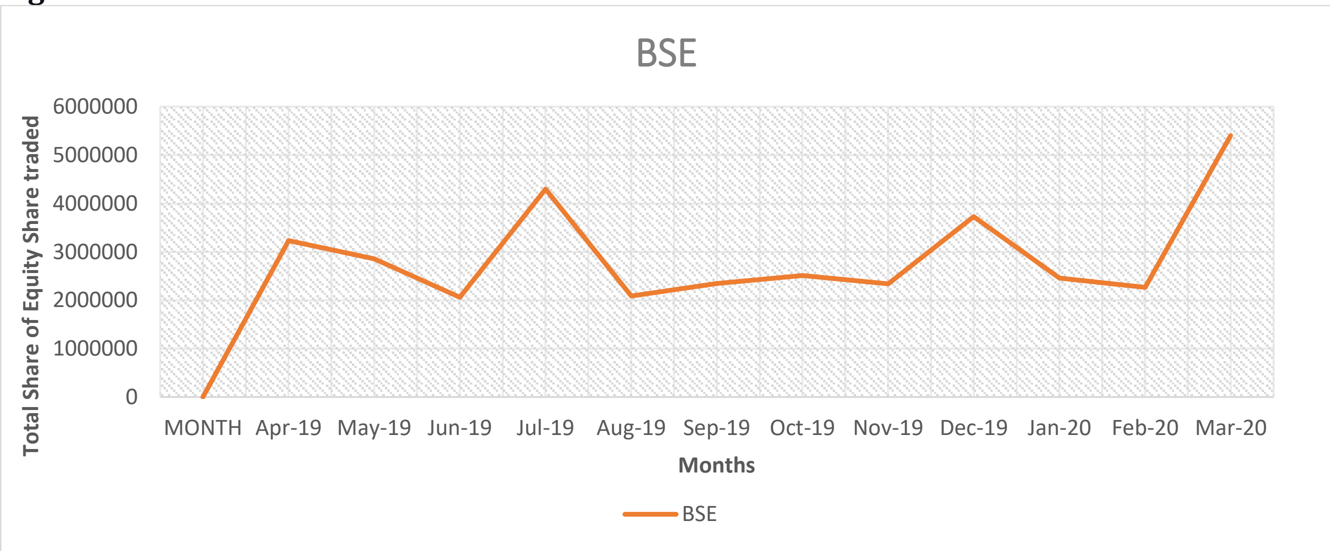
Source: Annual Report of TCS Company 2019-2020

Fig 1:



Source: Annual Report of TCS Company 2019-2020

Fig2:



Source: Annual Report of TCS Company 2019-2020

From the following data we can acquire that there is an increase in the total share of equity share traded. this indicates that the company has sold its stock and was able to earn a higher profit in both NSE and BSE. So, when equity increases ultimately there would be an increase in the salary that can be granted to all the employees including the regulators, members. So, through corporate governance practices the company has come up with strategies and goals to enhance the power of the profit and has placed itself in better position.

During the covid 19 situation, it has been seen that there is fall in the profit earnings 20.8% now estimates to $925 million and the revenue has fallen down to 6.3% which now estimates to $5.06 billion which was by the pandemic that disrupted the market trade flow between us and Europe. It is trying to follow a strict code of conduct with transparent and fairness among the company itself. TCS company is trying its best to maintain the profit level with the help of different technologies and innovations.

Challenges:

It has been seen that corporate governance has been successful for these many years but still possess some challenges that should be taken care of in order to have improvement in the performance of a company.

Even though some of the companies have separated CEO and Chairman, but there are certain instances where a family member becomes a Non-Executive Chairman while the other becomes CEO. This process can fulfill the compliance requirements but is not done whole heartily. There are certain instances which implies that most of the meetings are joined together just to save time. It is very well known that time has to be saved but the focus should not be based on the loss of trying to save time. Otherwise it would lead to a situation where regulatory requirements are being fulfilled in a routine manner. Certain improvements should be done when it comes in the terms in reporting subsidiary companies' operation and transaction. The performance of the Audit Committee as well the board functions should be very well strengthened and streamlined. It is really important to speed up the process of positioning independent directors since these public sector enterprises are very huge and having drift growth should not place a company under disadvantage situation when there is short come in the independent Directors. Reforms should be created based on renumeration and compensation committees because it would help in having enormous growth and due to extend of these operations may pose challenges for the management.

Suggestion

India is becoming one of the fastest growing economy and is attraction a lot of the investor community. So, it's very important for an Indian company to strengthen its corporate governance performance and as well as its standards. It has to sustain a piece of reforms in corporate governance by bringing in quality governance system. A good company can always find out various ways in bringing good governance system that can lead in establishing an effective market. There should be also a good governance system because it can lead to positive business growth with qualitative improvement in the corporate Environment. This would help the companies in indulge in good practices. This can be a major step in addressing the interest of the stakeholders as well as the society with overall positive outcome.

Conclusion

A company is not about earning profits, valuating the market conditions or turnovers but a lot of things go into consideration when we see in terms of image and the position of the company. Most of these companies have now realized that these factors such as numerous scandals, economic downturns, and maligned reputation can only be dealt with and saved with the help of corporate governance. In the past few years some of the companies were dependent on monetary gains and never considered corporate governance guidelines to be good so they took it for granted. So, therefore, this untrusty situation lead outflow in terms of sale by majority shareholders, reduced market value, and FII funds. For the construction of proper corporate governance must follow a very important framework because the fundamentals and policies are different in various across sectors in the economy. A better system of corporate governance is important for both banks and the health sector. Another sector that includes companies such as retail, FMCG, and IT must make the decision of prioritizing good governance and bad governance, but this way won't help in enhancing or improving the conditions of the market value. The governance system has a very big impact on influencing the values because it varies in the market conditions as well. It plays very important during tough times rather than gaining at the time of smooth periods. No matter what corporate governance will always be crucial in a country like India. The approach should be perfect enough and to bring a balance between too many facilities and excessive stringency is very important. The fundamentals and policies should be framed properly and the interest of the stakeholders should be taken into consideration

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