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THE STUDY OF CORPORATE GOVERNANCE: SIGNIFICANCE AND CHALLENGES

DR. POONAM KAPOOR
ASSISTANT PROFESSOR IN COMMERCE
DRONACHARYA GOVT. COLLEGE GURUGRAM
poonam1983.2009@gmail.com

ABSTRACT:

In modern times, business is usually done on a large scale. This has resulted in the creation of a corporate or company form of organization. In a company, management and ownership are separated. The owners of the company are shareholders and they don't participate in the company's day-to-day activities. Then it becomes mandatory to assure shareholders that their interest is protected. But now when the business complexities are increasing day by day it becomes necessary to protect the interest of each stakeholder rather than shareholders. A company's BOD is the main force that affects corporate governance. In this paper, we will study the concepts and principles of corporate governance. Then we will discuss its benefits and issues related to corporate governance. The study was designed to attain the objective of investigating the role of board of directors in framing corporate governance policies. With the help of this study, we can find the different factors or principles that leads board of directors to protect the interests of shareholders. This paper provides a roadmap for future corporate governance research in India.

Keywords: Governance, Corporate, Board of Directors, Literature review.

INTRODUCTION:

The term corporate governance is formed by combining the two words- corporate and governance. Corporate means a statutory body that is separate from its owners. The corporation can file a case and it can be sued. Governance means the method of directing and controlling the organization (Corporation). Relationships between the company's management, board of directors, shareholders, and other stakeholders are all parts of corporate governance. Therefore, corporate governance is a system in which the companies can be controlled and administered. It comprises rules and procedures for making decisions in corporate affairs. Corporate governance has gotten attention and developed as an important mechanism over the last decades. There is no concurrence on the role of corporate governance on a firm's performance due to many contextual factors. Most of the companies in India have witnessed scams and violations of rules and regulations e.g. Harshad Mehta case in 1992, the

Commonwealth Games scam in 2010, and the 2G Spectrum in 2008. Due to the rising number of corporate scams and failures, a suitable administering mechanism was required. For this, the concept of corporate governance has come out across the world. The concept of corporate governance has become vital, particularly in emerging countries.

Corporate governance in a given country is determined by many factors:

- Integrity of management
- Quality of company reporting
- Participation of stakeholders
- Responsible board of directors
- Commitment of Board of directors
- Adequacy of the process.

Corporate governance practices are designed to remove the conflicts of interests between the stakeholders and improve decision making process that can build long term relationship. (Mallin, 2018). corporate governance involves the mechanisms, processes, rules through which the organizations are operated and controlled which aims to run the business in a fair, transparent and accountable manner (OECD, 2004)

Good Corporate governance is essential for maintaining stakeholders' confidence, minimizing the overall cost and nurturing the sustainable development (Shleifer and Visnny, 1997). Corporate governance provides an organizational context within which managers adjust their product market strategies to compete (Bower, 1970).

Pistor (1999) defines two board structures: One is the unitary board in which the corporations are run under the supervision of a single board. The other one is two tier board in which the board is divided into an executive board and a supervisory board. Unitary boards are found in UK and US while two tier boards have been assumed by the countries like Germany, Holland etc.

Good corporate governance mentions the extent to which corporations are run openly and honestly so that the interests of all stakeholders can be protected.

REVIEW OF LITERATURE:

- **Garani, Palash (2016)** examined the impact of corporate governance on a firm's performance in the Indian capital market and found that awareness regarding the compliance of corporate governance has increased in the minds of the companies. The study implies that selected financial variables in the Indian capital market can measure the firm's performance.
- **Grahan, Nand Prasad (2020)** studied corporate governance and shareholder activism in India and found that minority shareholders do not play an active role in the winding up of the company. They should be allowed to give their views. The principles of private international law must be incorporated in the corporate sector. There should be more accountability and liability fixed on majority shareholders. It was found that shareholder activism is still in its initial stage.
- **Dhaliwal, Navneet Kaur (2016)** studied the emerging trends in corporate governance in India and concluded that corporate governance instrument is a substitute for competitive markets. Good governance is becoming a source of competitive advantage among the countries for attracting foreign capital. Corporate governance can help to reduce the effect of system anomalies by creating a dynamic and global competitive system that can combat the pressures of stringent global standards.

Research Gap- Though a lot of research has been done on corporate governance but little is known about how it affects the organizational performance. This disparity is very serious. The impact of problems of corporate governance has not been well studied. This paper attempts to highlight the problems associated with corporate governance and its recommendations

Objectives: The objectives of the study are:

- To understand the Concept of Corporate Governance
- To Study the principles and importance
- To highlight major challenges on the path of corporate governance

Research Methodology: This paper is descriptive. It helps in conceptual understanding of corporate governance and for this purpose, the secondary data is used. For contextual understanding, the secondary data from organizations' reports, journals and news stories was also examined.

Principles of Good Corporate Governance:

1. **Fair dealings**: Fair dealings are the first and most important requirement for good corporate governance. The companies should have high morals and should ensure their proper observance. The code of conduct of the organizations should be followed strictly.
2. **Participation**: Good corporate governance requires that every stakeholder must participate in the decisions taken by the company but this type of participation does not take place in daily activities.
3. **Managerial skills:** This principle makes it clear that for the governance of the company, there must be skilled and experienced directors and other managerial personnel. Specialists from all different areas must be included in the overall management of the company.
4. **Ethical behavior**: Every organization should develop a code of conduct for their directors, executives, and other members that help in making ethical and responsible decisions.
5. **Review of operations**: This principle focuses on constant review of the operations undertaken or done during an interval of time so that we can find the deficiency in time and make it correct for the future.
6. **Responsiveness**: Corporate governance is not established until the administrators are not concerned about the interests of the stakeholders. Good corporate governance is not established by the directors or managers merely fulfilling their duties but they will have to consider the expectations of the stakeholders and make efforts to satisfy them.
7. **Effective role of the board**: The board must consist of an adequate number and have the appropriate level of independence. The board members must be experienced and skilled as they have to make important decisions for the company.

Why Corporate Governance is important?

Safeguards the money of investors: Shareholders only attend the annual general meeting of their companies. They don't actively participate in the management of the company. Good corporate governance ensures transparency and informed disclosure and shareholders' money can be safeguarded from fraudulent persons.

1. **Increased importance of CSR**: In the modern era the importance of CSR is increasing. As the business gains everything from society, the company must perform its social responsibility towards different parties of society i.e. customers, employees, suppliers, creditors, and the community. To fulfill this social responsibility, they need corporate governance.

2. **Public image**: Good corporate governance improves the reputation of the company. Well known IT companies like Wipro, HCL, TCS, and Infosys have a global image. Having a good reputation brings stability to the business and helps in its growth.
3. **Legal Compliance**: The practice of corporate governance is required from the legal point of view. In India, SEBI and Indian Companies Act 2013 lays down the scope, importance, and procedure followed for good corporate governance. It has been made mandatory for some specific companies to have good corporate governance. This is done to protect the interests of stakeholders.
4. **Reduces risk:** Good corporate governance helps to mitigate risk by framing such policies that ensure the identification and evaluation of risks on time. Companies face many types of risks like tough competition, changes in demand, price deregulation, etc. Good corporate governance helps in minimizing the risks.
5. **Better strategic planning:** Strong corporate governance means prompt access to information, clearly defined roles, and strong communication between team members. These factors strengthen strategic planning and help the board of directors to better understand the environment in which the business is working.
6. **No conflicts of interest:** Conflict arises when stakeholders in business have conflicting interests. But in good corporate governance, every stakeholder's interest is protected so there is no chance of conflict.
7. **Globalized era:** Now Indian market has become globalized because trade barriers are coming down and the flow of capital from one country to another is taking place. The outflow of foreign capital is very important in the economic development of a country.
8. **Innovation**: Companies that go with good corporate governance are innovating in social sectors and exploring various opportunities. Many companies like ITC and HUL have grabbed many business opportunities through their good corporate governance.
9. **Acquisition and retention of talented staff**: Companies with good corporate governance can attract hardworking, ambitious, and capable candidates which prove to be a valuable asset for the organization.
10. **Changing business structure**: In recent years the business structure has changed a lot. Now financial institutions are the single largest stakeholder in the business which forces the management to become more efficient and accountable. The scale of business operations has also been expanded. To get economies of scale, many mergers or takeovers take place and corporate governance helps the company in this merger and takeover.

Barriers to Good Corporate Governance

1. **Transparency**: Good corporate governance is based on transparency but it can't be explained what should be disclosed or what should be not. In the modern era, if we disclose wrong information, it will be very dangerous for the entire organization.

2. **Ineffective communication**: It is expected from the organization that it should disclose true and fair information about its various aspects. If the organization doesn't achieve the target of effective communication with the public and shareholders, it leads to poor corporate governance.

3. **Inappropriate size of Board**: The size of the board should neither be too large nor too small. If the size of the board is very large, it will increase the cost. If its size is very small, then it causes inefficiency in performing its functions.

4. **Internal disputes**: In many cases, it has been observed that the relationship between managers and the board is not good and it affects the implementation of policies and decisions. Dormant managers can willingly harm corporate decisions at many levels.

5. **Environment of distrust:** In recent years we have seen many cases of scams, frauds, and other corrupt practices which result in the loss of confidence of investors in the board officials. It can be seen in the stock market, banks financial institutions, etc. This has made the business environment distrustful.

6. **Low level of integrity of management:** The board of directors with a low level of integrity is decoyed to misuse the trust of shareholders. Generally, the board tries to escape from their accountability. For this, there must be a provision that all the directors must be present at general meetings.

7. **Selection and tenure of Board:** The selection of the board of directors should be done with utmost care. Life-term board members can pose many business problems. If their tenure is very short, they can't make long term decisions. So their tenure must be fixed between 2 to 5 years.

8. **Roles and responsibilities not defined:** Sometimes the roles, functions, and responsibilities of BOD are not defined explicitly. This also creates a problem of conflict between management and directors.

CONCLUSION:

It can be concluded that corporate governance is changing and is expected to change in the future. In this paper, we studied the importance of good corporate governance to an organization. In the process of good corporate governance, organizations may have to face some challenges. The present study provides a clear picture of the current situation of corporate governance. Different research areas can be investigated in the future such as IT governance, the impact of corporate governance on financial reporting, etc. The present study attempts to understand the strength of the effect of corporate governance on a firm's performance. At last, we can conclude that although we have achieved great success in corporate governance regulations as India is a developing country has a long way to go on the path of corporate governance. Good governance can lead a company to make ethical decisions while bad governance leads to the breakdown of a company, sometimes to the point of bankruptcy and scandal.

RECOMMENDATIONS:

- Transparency is must for good corporate governance. It must be ensured that all actions, decisions and policies are clear and accessible to stakeholders.
- The roles, duties and responsibilities should be clearly defined for all board members and executives.
- There should be two-way communication between organization and stakeholders.
- A corporate code of ethics should be established and promoted.
- Tools like board management software can streamline the corporate governance process.
- Regular training should be imparted to the board members and executives so that it can help them to keep updated on emerging governance challenges.
- The engagement of stakeholders in organization is needed to understand their needs and expectations.
- The size of the board should be fixed according to the Companies Act 2013 like (a) minimum 3 directors in public company (b) minimum 2 in private company (c) minimum 1 in one man company and maximum 15.

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