

Corporate Governance and Business Ethics in India

Vinothini. G

Assistant Professor MBA, Department of Business Administration
Bharath Institute of Higher Education and Research
Selayur, Chennai, Tamil Nadu 600 073

ABSTRACT

Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. It is based on principles such as conducting the business with all integrity and fairness, being transparent with regard to all transactions, making all the necessary disclosures and decisions, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner. There is a level of confidence that is associated with a company that is known to have good corporate governance. Bad corporate governance can cast doubt on a company's reliability, integrity or obligation to shareholders which can have implications on the firm's financial health. Unfortunately, corporate governance often becomes the centre of discussion only after the exposure of a large scam. Corporate governance in India is the outcome of a long process of evolution, metamorphosis and refinement. However, the bigger challenge for India is the proper and effective implementation of the normative rules, as most prudent norms can be hoodwinked by corrupt practices.

Key words: Corporate governance, Benefits, Issues, Indian context, Business ethics.

1. INTRODUCTION

Many Indian companies have recognized the importance of integrity, transparency, and open communications in their corporate culture. They believe that the goodwill resulting from adopting and successfully implementing a code of business ethics will, in the long run, translate into economic gains. Today, investors want to ensure that the companies they invest in are not only managed properly, but also have proper corporate governance. Companies have now begun to integrate ethics into their corporate cultures and concentrate on putting appropriate corporate governance mechanisms in place. They regard corporate governance as a control mechanism that ensures the optimum use of the human, physical and financial resources of an enterprise. The role of corporate governance is to ensure that the management of a company should act in the best interest of the company and remain accountable to the shareholders and this is to be done in an ethical way, that is why corporate governance is treated as an ethical, long term and sustainable way to maximize shareholders wealth. on the other hand principal-agent problem is inevitable when ownership is separated from management. in financial literature, this principal-agent problem is known as agency problem. agency cost arise due to conflicts of interest between shareholders and management. to minimize agency problem, proper monitoring by the shareholders on manager's activities is essential.

To enhance the quality of governance SEBI, stock exchange and government are making more efforts such as Centre for corporate governance research is established. Government of India has initiated MCA-21 program for E-Governance and setting up of an "investor Education and

Protection Fund(IEPF)” to compensate duped investors. On the other hand, Indian School of Business, Hyderabad has started new PGP Max programme for “peer to peer” learning and a few universities have introduced courses on corporate governance, IIM Calcutta has introduced new course on: Behavioral Finance “to better understand investor behavior. The ministry of finance’s financial Intelligence Unit (FIU) has awarded an IT contract to Wipro InfoTech to develop Financial Intelligence Network (FINNet). FINNet will enhance capacity to collect financial information, analyse it and disseminate actionable information to intelligence and law enforcement agencies.

To register investor confidence there is a need of Rotating Auditor firms and a separate and independent body for corporate governance..to reduce carbon emissions a planning is needed that offer 360 degree view of their energy use and there is a necessity to have good corporate governance in unlisted companies.

Companies must embrace conscious capitalism (C-C) approach which is more humane, more holistic way of doing business. There is a necessity of “self-driven”, “self-assessed” organizations to create simple, moral. accountable, responsible and transparent (SMART) governance.

Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

2. BENEFITS OF CORPORATE GOVERNANCE

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors’ confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
6. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
7. It helps in brand formation and development.
8. It ensures organization in managed in a manner that fits the best interests of all.

The board of directors is the primary direct stakeholder influencing corporate governance. Directors are elected by shareholders or appointed by other board members, and they represent shareholders of the company. The board is tasked with making important decisions, such as corporate officer appointments, executive compensation and dividend policy. In some instances, board obligations stretch beyond financial optimization, when shareholder resolutions call for certain social or environmental concerns to be prioritized. Boards are often made up of inside and independent members. Insiders are major shareholders, founders and executives. Independent directors do not share the ties of the insiders, but they are chosen because of their

experience managing or directing other large companies. Independents are considered helpful for governance because they dilute the concentration of power and help align shareholder interest with those of the insiders. Another point which is highlighted in the SEBI report on corporate governance is the need for those in control to be able to distinguish between what are personal and corporate funds while managing a company.

Fundamentally, there is a level of confidence that is associated with a company that is known to have good corporate governance. The presence of an active group of independent directors on the board contributes a great deal towards ensuring confidence in the market. Corporate governance is known to be one of the criteria that foreign institutional investors are increasingly depending on when deciding on which companies to invest in. It is also known to have a positive influence on the shareprice of the company. Having a clean image on the corporate governance front could also make it easier for companies to source capital at more reasonable costs. Unfortunately, corporate governance often becomes the centre of discussion only after the exposure of a large scam.

3. GOOD AND BAD GOVERNANCE

Bad corporate governance can cast doubt on a company's reliability, integrity or obligation to shareholders — which can have implications on the firm's financial health. Tolerance or support of illegal activities can create scandals like the one that rocked Volkswagen AG in 2015, when it was revealed that the firm had rigged engine emissions tests in America and Europe. Volkswagen saw its stock shed nearly half its value in the days following the start of the scandal, and its global sales in the first full month following the news fell 4.5%. Companies that do not cooperate sufficiently with auditors or do not select auditors with the appropriate scale can publish spurious or noncompliant financial results. Bad executive compensation packages fail to create optimal incentive for corporate officers. Poorly structured boards make it too difficult for shareholders to oust ineffective incumbents. Corporate governance became a pressing issue following the 2002 introduction of the Sarbanes-Oxley Act in the United States, which was ushered in to restore public confidence in companies and markets after accounting fraud bankrupted high-profile companies such as Enron and WorldCom. Good corporate governance creates a transparent set of rules and controls in which shareholders, directors and officers have aligned incentives. Most companies strive to have a high level of corporate governance. For many shareholders, it is not enough for a company to merely be profitable; it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behavior and sound corporate governance practices.

4. ISSUES

- Corporate scams and scandals are increasing day by day in both depth and range. There is no simple solution to this growing menace. Unless the corporate sector is ethically conscious and concerned, the ethical deficit cannot easily be tackled.
- Ethical governance or effective governance: These two things are different. Corporate houses measure their success and efficiency in terms of the amount of profit they earn at the end of the year. This quantitative and acquisitive mindset is difficult to change. Perhaps it will be more meaningful to induct some directors from the philanthropic organisations like the Ramakrishna mission and Bharat Sevashram and so forth. A

proportion of directors should be women as they are considered to be less selfish and more objective.

- One of the sources of unethical practices are the information asymmetry and lack of communication among the decision-makers. This leads to sub-optimal level disclosures, hiding critical information, lack of transparency and accountability.
- The model of corporate governance that is best suited to India is still a matter of debate. No model is proved to be flawless. A mixture of good points of different types of models and an amalgam of the eastern and the western models may be tried. The crucial point is the suitability of the model for the Indian milieu.
- A clear cut separation of powers is not specified in many cases of corporate governance in India, and, therefore there are unnecessary power struggle and showdowns.

5. CORPORATE GOVERNANCE IN INDIA: THE JOURNEY

Corporate governance in India is the outcome of a long process of evolution, metamorphosis and refinement. Indian government and corporate houses became more concerned with the need for strong corporate governance. It was realized that such a type of corporate governance will enable the Indian companies to have more international presence and the capitalist integration during the period of globalization will necessitate strong corporate governance. Several committees and institutions felt the immediate need to refurbish the system of corporate governance in India to make it more powerful. The contributions of the confederation of Indian Industries (CII), the Securities Exchange Board of India (SEBI) and the Kumaramangalam Birla Committee Report, among others, are noteworthy in this context. The Government also setup a National Foundation for Corporate Governance. It is looking after the problems that stand in the way of good corporate governance in India. India has been following the Anglo-American system having a single tier model buttressed by the OECD principles of corporate governance,

The SEBI has, through various amendments, introduced many development-oriented features in corporate governance, which are comparable with the standards of corporate governance in developed countries. However, the progress is on the way and the Indian corporate governance has a long way to go to catch up with the ideal standard. Still there are many defects in the Corporate governance system, such as lack of professionalism, lack of transparency and accountability and so forth. While evaluating the performance of India in the area of corporate governance, the World Bank observed that India could do better in some areas, although it is mostly followed the OECD principles. There are many disconcerting issues in the corporate governance of India like unethical practice, power struggle, information asymmetry and so forth.

At the governmental level, there is an active attempt to provide an enabling environment for better corporate governance. It provides a level playing field to the private sector free from fear and favour. It is also encouraging firms to be engaged in corporate social responsibilities. The government rules, regulations and laws are all in favour of improving the ethical standards of corporate houses. However, the bigger challenge for India is the proper and effective implementation of the normative rules, as most prudent norms can be hoodwinked by corrupt practices.

6. CONCLUSION

Corporate Governance is highly related with ethical conduct of business. Business is a form of economic activities, which is governed by the principle of input and output. Ethics on the other hand is concerned with moral behavior of an individual and clarifies what can be described as right or wrong behavior. Business is a part and parcel of human life and business organizations do not exist and function outside the society. Therefore, business cannot alienate itself from the concept and norms of good and bad, developed by human society.

The increasing number of corporate scandals in the last few years have stained corporate governance reputation and questioned the effectiveness of its current structure. Corporate governance scenarios prevalent in India are good. The different agencies have made remarkable suggestions for good corporate governance practices. It is interesting to note that modern society afflicted by “moral pollution” which is not confined to the corporate sector alone, but is all pervasive. In such climate, more gimmicks of reforming the corporate sector would not automatically guarantee good corporate governance. What is required is an evolution of a “culture of conscience” and “business ethics”.

7. REFERENCES

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