

# Corporate Governance: History and Future

Miss Anjali Yadav

---

## ABSTRACT

**This paper aims to review the various developments of the concept of Corporate Governance in India. It will analyse as to how this concept came into being and what is the need of it in the present scenario. It will also focus on the recent developments in corporate governance and what does the future holds for this. What needs to be modified in the concept to make it better for the existing companies and make their survival easier in the near future. This paper will also focus on the challenges being faced in the concerned matter to make the model of corporate governance suitable for all the firms. Corporate governance cannot alone be measured by the quantitative facts alone but require correct measures to be adopted to get an insight into the complete system of the organisation. I will try to put up light on all these matters in my paper.**

---

## INTRODUCTION

The concept of corporate governance is not new. It relates to the times when human civilisation began. It includes the structure of the board of directors, managerial accountability and the rights of the shareholders. Corporate governance is nothing but a system through which the companies are controlled and directed. It can also be defined as a set of different rules, processes and various practises which helps a company to be controlled by the board of directors. It also sets up a framework for attaining the objectives of an organisation.

There are two types of corporate governance-Good and bad. Good governance means the transparency and disclosure of all the facts and information to the stakeholders of the company. Bad governance on the other hand is related to concealing facts, cheating, fraud and negligence by the management of the organisation. A company should strive to maintain good corporate governance for the better performance of the company, good image in the society and legally doing the business in the country.

But in today's time when the changes are taking place rapidly there is a need to rethink about the challenges being faced in this concept and the need to modify it accordingly. There should be correct measures to certify good governance which covers the qualitative factors as well. Also there should be some working towards the formation of certain universal standards for governance that can be adopted by each company and thus comparisons and flaws can be made easily. But this should not ignore the individuality of the companies. Each and every company is different from each other in terms of working, ethics and organisational structure. Thus there is a need to consider all these factors before setting up a guideline regarding this.

Corporate Governance was not considered much valuable in India till 1990 and neither was it given any mention in the legal scenario of the country as well. There were frauds in the representation of the financial statements, no transparency, and poor disclosure of the accounts by the companies. Due to LPG in 1991 and fiscal crisis in the country during late 1990s led to the need for a concept which can be used to deal with all these issues.

The Company's act 1956 was enacted on the basis of Bhabha Committee which was set up in 1950. It was set up to enact new basis for the operation of companies in Independent India. There was much need for the modifications required in this act due to the fast pace of growing of the corporate sector post-independence. But after the reforms of 1991 there was a need to change the Companies act 1956. But before that there were other committees which led to the introduction and modifications of Corporate Governance.

The Confederation of Indian Industries (CII) released a code named as "desirable corporate governance" in April 1998 to look into various aspects of corporate governance. The Kumar Mangalam Birla Committee ratified few aspects of the Clause 49 of the Listing agreements of stock exchange to make it more reliable and transparent. Then there were many committees which further modified the corporate governance structure like Naresh Chandra Committee in 2002 recommended financial and non-financial disclosures along with independent auditing. Thereafter Narayan Murthy committee report in 2002 made changes in the audit report, audit committee, risk management, directorships and director compensation. In 2004 J.J Irani Committee was set up for giving its

recommendations on the revision of Companies act 1956. Finally in 2013 new Companies act came into being with the proposition of Corporate Governance in it and aims to improve the current scenario. The clause 166 of the Companies act 2013 is about the maximum number of Board of Directors which is 15. The clause 149 is about the independent director which is introduced for the first time. The clause 139 discusses about the auditors and says that an individual cannot be appointed or reappointed by a listed company for more than one term of consecutive five years. This is a breakthrough to avoid misrepresentations and fraud in financial statements.

Despite all these developments the corporate governance structure needs to be looked upon thoroughly as there are few points still left which needs to be highlighted and taken care of looking at recent times and developments.

Corporate Governance is more about ethics and good conduct in a business. This is not common to everyone. A certain act is ethical for one person and unethical for another and to differentiate between them is a great difficulty. Also in today's globalised world when there is congruence of multiple nations and business is all about dealing with the people having different mind-set all together in this vast world, it is a big issue to implement corporate governance in a full-fledged way.

There are few practises which are legal but unethical. In fact the tax planning comes under this only where there is a fine line between legal and unethical. This also needs to be considered. Independent directors were considered as the biggest reform but if we look into the reality nothing much has been done and it has not created the impact which was desired. There can also be a debate as to whether this independent director be able to look into the minority interest. They can also be removed easily by the promoters or majority shareholders. This area needs to be reframed deeply.

Excessive remuneration of the senior executives like the board members and CEO has been an issue for years. The management is overpaid and employees are underpaid which led to the discrepancies at a higher level and dissatisfaction among the employees which is unethical and it makes the firm suffer in a long run.

To overcome all these hurdles there are few suggestions which can be implemented. Firstly, government should lay more focus on value based culture in business. Like Survival, Profit and Growth are the three pillars to run a business, there should also be a set of ethics, beliefs and principles which the organisation won't ever mend in any conditions should be stressed upon. This would benefit the organisation in the long run and would build a good image in the society.

Effective governance can also solve the issue of pay difference between the management and employees. It should be ensured that the compensation should be clearly in the basis of performance. There should be benefits and rewards for those who perform exceptionally good. Also there should be accurate disclosure of the compensation the books of accounts and hiding or tampering the actual figures should not be there. It is a good governance practise to be transparent in terms of expenditures.

There should be addition in the area of Independent directors. There needs to be done a lot in this field as at present it is not been taken care of properly and is just considered a formality by the organisations. Also their removal is also a cake walk for the company. Their responsibility and accountability needs to be clearly stated. Also their position should be sorted and clearly defined so that the purpose with which they were introduced can be fulfilled. Also they can be blamed for serious charges by the management so to safeguard them clear laws should be stated. Their selection criteria should also be transparent.

To make Corporate governance success a company should never shy away from innovations as they can only lead the country ahead from others. Every human being should be treated with respect and dignity and their achievements on the work front should be recognised. All the employees should be given an opportunity to grow while working. There should be transparency in the disclosure of accounts for all the stakeholders so that they can take their decisions being aware.

## **CONCLUSION**

Corporate Governance is a concept that is related with the transparency, honesty and integrity of the management and the board of directors. In all the spheres of the organisation corporate governance is required to maintain a good image of the company in front of its stakeholders and to be ethically good to outsiders as well as insiders. The emergence of the corporate governance in the Indian context may be was on time but its effective implementation is yet to be achieved. There are still few areas left where there is a need to put more focus to achieve better results. There is still a need to develop the corporate governance theory further in a more holistic way for better implementation of it.



The better the implementation of corporate governance better would be the brand image. This better brand image will lead to more brand loyalty which in turn will lead to loyal customers and stakeholders which eventually will help the organisation grow and achieve its target effectively and efficiently. So to help the companies in a long run and to protect the interests of the stakeholders some new guidelines should be added in this.

#### **REFERENCES**

- [1]. Dimple Grover, AmulyaKhurana, Ravi Shankar, the Regulatory NormsOf Corporate Governance in India.
- [2]. SadhalaxmiVivekRao, Legal Framework and corporate Governance:An Analysis of Indian Governance System.
- [3]. Chhibber, P.K., and S.K. Majumdar (1999), Foreign Ownership and Profitability:Property Rights, Control, and the Performance of Firms in Indian Industry, JournalOf Law and Economics.Journal of Finance
- [4]. Das, A. and S. Ghosh, 2004. Corporate Governance in Banking System: An EmpiricalInvestigation, Economic and Political Weekly.
- [5]. Goswami, Omkar, 2002, "Corporate Governance in India," Taking Action AgainstCorruption in Asia and Pacific.