Corporate Governance

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Context- The Indian Institute of Corporate Affairs (IICA) organized a "two-day induction program for independent directors" aimed at strengthening corporate governance in India.

What is Corporate Governance?

- Corporate governance is the system of rules, practices and processes by which a business is managed and controlled.
- It balances the interests of the company's stakeholders, i.e. shareholders, customers, suppliers, government and the community.
- Company management consists of;
    - Direct and indirect agreements between the company and stakeholders regarding the distribution of duties, rights and rewards.
    - Procedures for reconciling the conflicting interests of stakeholders according to their duties, privileges and roles.
    - Procedures for proper supervision, control and information flow that act as a system of checks and balances.

Corporate Governance Regulatory Framework in India

- **Companies Act, 2013:** It contains provisions like composition of board of directors, confirmation of woman director and independent director, training and evaluation of directors, establishment of audit committee, risk management committee, management of subsidiaries etc.
- **Securities and Exchange Board of India (SEBI)):** SEBI is a regulatory body that curbs abuses in financial markets and protects the interests of its investors. It regulates the work of the Stock Exchange and ensures the healthy development of the financial

market.

- **Stock exchange standard agreement:** This is a basic document drawn up between companies and the stock exchange when companies are listed on the stock exchange. Its main purpose is to ensure that companies follow good corporate governance.
- **Institute of Chartered Accountants of India (ICAI):** publishes accounting standards for financial disclosure.
- **Institute of Company Secretaries of India (ICSI):** It publishes secretarial standards under the provisions of the Companies Act, 2013.

Corporate Governance Challenges in India

- **Getting the board right:** It is a common practice in India to appoint friends and family members of the promoters as board members.
- **Management Performance Reviews:** To achieve desired results, management practices often require the public sharing of performance evaluation results. But companies sometimes don't share it to avoid public attention and negative reactions.
- **Dismissal of independent directors:** In most cases, the biggest problem in corporate governance arises from the fact that independent directors are easily dismissed by the promoters if they do not protect the decisions of the promoters.
- **Founder control and succession planning:** In India, the ability of founders to control the company's operations can derail the entire corporate governance system. Unlike developed economies, India often combines the identity of the founder and the company.
- **Risk management:** The task of the board is only to control the affairs of the company. However, a risk management policy must be developed and implemented.

Committees for Resolving Issues

- **Kumar Mangalam Birla Committee:** It was constituted to provide appropriate recommendations for entering into listing agreements of companies with respective stock exchanges. The Committee drafted a Code of Corporate Governance which was approved by SEBI and a new Clause 49 was inserted in the listing agreement of companies with their respective stock exchanges.
- **N R Narayan Murthy Committee:** Based on the recommendations of this Committee, SEBI issued a revised Clause 49 which included changes/amendments to the provisions relating to the definition of independent directors, by strengthening the accountability of audit committees and demanding the adoption of an official code of councils.

The importance of corporate governance

- **Strengthens investor confidence:** Strong governance maintains investor confidence in financial markets, enabling companies to raise capital efficiently and effectively.
- **International capital flows:** This allows companies to benefit from global capital markets, which promotes economic growth.
- **Increased productivity:** It also reduces waste, corruption, risk and mismanagement.
- **Brand image:** It helps in brand building and company development. Ultimately, this will increase capital flows from foreign institutional investors and foreign direct investment.

Indian Institute of Corporate Affairs (IICA)

- IICA is the apex think tank of the Ministry of Corporate Affairs, Government of India.
- It was founded in 2008.
- IICA aims to promote excellence in corporate governance, promote responsible business and ensure the highest standards in the Indian business world.
- **Key Initiative:** Independent Director Database and Certification Initiative, mandatory certification for individuals seeking to serve on Indian corporate boards.

Source: PIB

Practice question:

Q. What do you understand by 'moral integrity' and 'professional efficiency in the context of corporate governance in India ? Illustrate with suitable examples.(2023)