International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor 7.001 Volume 9, Issue 03 March 2022
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"A Study of Conceptual & Legislative Framework of Corporate Governance in India"

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Abstract.

Corporate governance offers a comprehensive, interdisciplinary approach to the management and control ofcompanies.Corporate Governance is how a corporation is administered or controlled. It is a set of processes, customs, policies, laws and instructions affecting the way a corporation is directed, administered or controlled. The participants in theprocess include employees, suppliers, partners, customers, government, and professional organization regulators, and the communities in which the organization has presence. Corporate Governance is integral to the existence of the company. Corporate Governance is needed to create a corporate culture of transparency, accountability and disclosure. Good corporate governance systems attract investment from global investors, which subsequently leads to greaterefficiencies in the financial sector. The relation between corporate governance practices and the increasinginternational character of investment is very important. International flows of capital enable companies to accessfinancing from a much larger pool of investors. In order to reap the full benefits of the global capital market andattract long-term capital, corporate governance arrangements must be credible, well understood across borders andshould adhere to internationally accepted principles.Corporate governance is a critical factor in economic stability and organisational success. In the last decade, manyemerging markets, international bodies, governments, financial institutions, public and private sector bodies havereformed their corporate governance systems and are encouraging debate and spearheading initiatives towards goodcorporate governance. Better regulatory and self-regulatory corporate governance frameworks and enforcementmechanisms are being implemented through tougher legislations and Corporate Governance Codes. ThisResearch Paper gives an overview of the evolution of Corporate Governance worldwide and the existence anddevelopment of corporate governance in India since centuries.

Key Words : Corporate Governance , Transparency , Accountability , Self-Regulatory

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(I) Introduction:

The phrase “corporate governance” describes “the framework ofrules, relationships, systems and processes within and by whichauthority is exercised and controlled within corporations. Itencompasses the mechanisms by which companies, and those incontrol, are held to account.”Corporate governance is the broad term used to describe theprocesses, customs, policies, laws and institutions that direct theorganizations and corporations in the way they act or administerand control their operations. It works to achieve the goal of theorganization and manages the relationship with the stakeholdersincluding the board of directors and the shareholders.

Corporate governance means to steer an organization in the desired direction by determining ways to take effectivestrategic decisions. It also deals with the accountability of the individuals through a mechanism which reduces theprincipal-agent problem in the organization.Corporate Governance has a broad scope. It includes both socialand institutional aspects. Corporate Governance encouragesa trustworthy, moral, as well as ethical environment. In other words, the heart of corporate governance is transparency, disclosure, accountability and integrity. It is to be borne in mindthat mere legislation does not ensure good governance. Goodgovernance flows from ethical business practices even whenthere is no legislation. Good corporate governance promotes investor confidence, whichis crucial to the ability of entities listed on stock exchanges tocompete for capital. Good corporate governance is essentialto develop additional values to the stakeholders as it ensurestransparency which ensures strong and balanced economicdevelopment. This also ensures that the interests of all
shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fullyexercise their rights and that the organization fully recognizes their rights.

Corporate Governance is managing, monitoring and overseeing various corporate systems in such a manner thatcorporate reliability, reputation are not put at stake. Corporate Governance pillars on transparency and fairness inaction satisfying accountability and responsibility towards the stakeholders.

II) <u>Review of related Literature: -</u>

(i) **Alessandro Zattoni (June 2018)** in his article "What adopts codes of good corporate governance" has narrated about Elements and strategies about the good corporate governance.Given the global diffusion and the relevance of codes of good governance, the aim of this article is to investigate if the main reason behind their proliferation in civil law countries is: (i) the determination to improve the efficiency of the national governance system; or (ii) the will to "legitimize" domestic companies in the global financial market without radically improving the governance practices.

(ii) **Lucian A. Benchuk , Michael S. Weisbach (March 2010) "Review of Financial Studies" Vol 23, Issue 3,** reviews and comments on the state of corporate governance research. The special issue features seven articles on corporate governance that were presented in a meeting of the NBER's corporate governance project. Each of the articles represents state-of-the-art research in an important area of corporate governance research.

(iii) **Barbara, Marie (May 2014)** ***"Corporate Governance"*** has described about the aims to develop a framework of connotative meanings afforded to the term "corporate governance".This study provides a very useful analysis into the connotative meanings and theoretical bases used by academic writers in the study of corporate governance.This study also provides an updated and developed analysis to the theoretical dimensions that underpin the contemporary use of the term "corporate governance".

(III) <u>Objectives of the Study: -</u>

Corporate Governance is integral to the existence of the company. Corporate Governance is needed to create a corporate culture of transparency, accountability and disclosure.

1. To understand the concept of Corporate Governance.
2. Need and importance of corporate governance
3. Evolution of Corporate Governance across countries including India
4. Corporate governance framework and its evolution in the Indian Ethos
5. To understand the legislative framework of Corporate Governance

(IV) **Scope & Significance of Study**

(A) **Need of Corporate Governance**

(a)**Corporate Performance**

Improved governance structures and processes ensure quality decision-making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and its sources of finance. This can be linked with improved corporate performance- either in terms of share price or profitability.

(b)**Enhanced Investor Trust**

As individuals and institutions invest capital directly or through intermediary funds, they look to see if well- governed corporate boards are there to protect their interests. Investors who are provided with high levels of disclosure and transparency such as relating to data on matters such as pay governance, pay components, performance goals, and the rationale for pay decisions etc. are likely to invest openly in those companies.

(c)**Better Access to Global Market**

Good corporate governance systems attract investment from global investors, which subsequently leads to greater efficiencies in the financial sector. The relation between corporate governance practices and the increasing international character of investment is very important. International flows of capital enable companies to access financing from a much larger pool of investors.

(d)**Combating Corruption**

Companies that are transparent, and have sound system that provide full disclosure of accounting and auditing procedures, allow transparency in all business transactions, provide environment where corruption would certainly fade out. Corporate Governance enables a corporation to compete more efficiently and prevent fraud and malpractices within the organization.

(e)**Easy Finance from Institutions**

Several structural changes like increased role of financial intermediaries and institutional investors, size of the enterprises, investment choices available to investors, increased competition, and increased risk exposure have made monitoring the use of capital more complex thereby increasing the need of Good Corporate Governance.

(f)**Enhancing Enterprise Valuation**

Improved management accountability and operational transparency fulfill investors' expectations and confidence on management and corporations, and in return, increase the value of corporations.

(g)**Reduced Risk of Corporate Crisis and Scandals**

Effective Corporate Governance ensures efficient risk mitigation system in place. A transparent and accountable system makes the Board of a company aware of the majority of the mask risks involved in a particular strategy, thereby, placing various control systems in place to facilitate the monitoring of the related issues.

(h)**Accountability**

Investor relations are essential part of good corporate governance. Investors directly/ indirectly entrust management of the company to create enhanced value for their investment. The company is hence obliged to make timely disclosures on regular basis to all its shareholders in order to maintain good investor relation. Good Corporate Governance practices create the environment whereby Boards cannot ignore their accountability to these stakeholders.

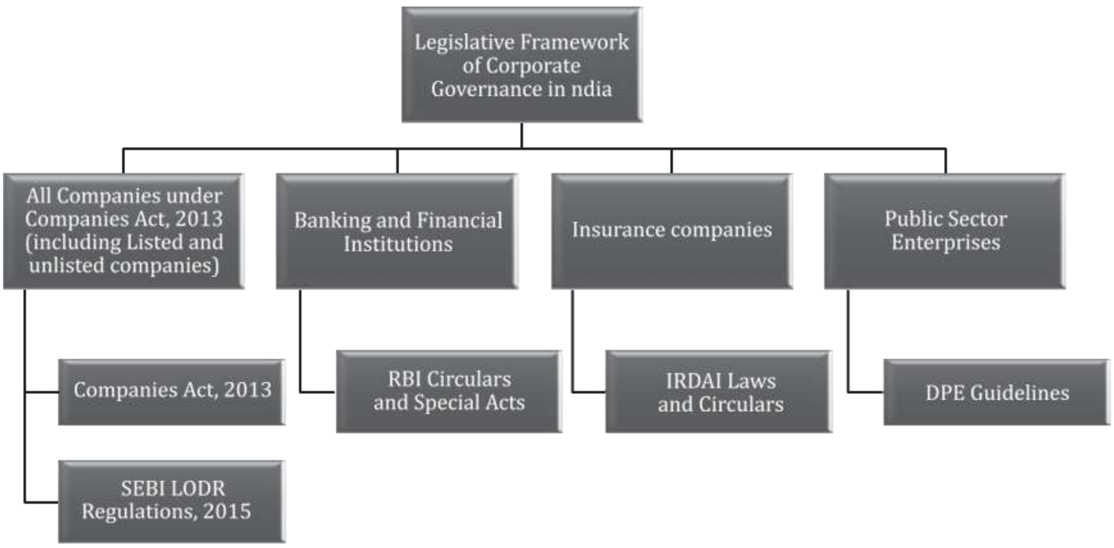
(B) Advantagesof Corporate Governance:

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. There is a positive impact on the share price.
4. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
5. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
6. It helps in brand formation and development.
7. It ensures organization is managed in a manner that fits the best interests of all.
8. It reduces cost and aids in long term sustenance and growth of the Company.

(C) Scope of Corporate Governance :

- To define the purpose of the company.
- To define the by which the company will perform its daily duties.
- To identify the stakeholders relevant to the company.
- To develop a strategy combining these factors.
- To ensure implementation of this strategy.
- Financial Reporting & Operational Reporting
- Risk Performance.0
- Code of Conduct.

(V) Legislative Framework of Corporate Governance in India



(VI) Research Design and Methodology

The present study is based on qualitative information gathered through authenticate various secondary data available through physical and digital sources. The information collected through the reliable sources such as online journals, books, magazines, government reports, research articles, and websites, etc. Guidelines and instructions issued by various formal and informal bodies like the Institute of Chartered Accountancy of India, Institute of Company Secretary of India (ICSI) have been extensively used for the study.

(V) Suggestions:

The corporate governance framework should ensure that timely and accuratedisclosureismadeonallmaterialmattersregardingthecorporation,includingthefinancialsituation, performance,ownership,andgovernanceofthecompany:

A. Disclosureshouldinclude,butnotbelimitedto,materialinformationon:

1. Thefinancialandoperatingresultsofthecompany.
2. Companyobjectivesandnon-financialinformation.
3. Major share ownership, including beneficial owners, andvotingright Remuneration of members of the board and key executives.
4. Information about board members, including their qualifications, the selection process, othercompany directorships and whether they are regarded as independent by the board.
5. Related party transactions.
6. Foreseeable risk factors.
7. Issues regarding employees and other stakeholders.
8. Governance structures and policies, including the content of any corporate governance code or policy and the process by which it is implemented.
9. Information should be prepared and disclosed in accordance with high quality standards of accountingand financial and non-financial reporting.
10. An annual audit should be conducted by an independent, competent and qualified, auditor in accordance with high-quality auditing standards in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects.
11. External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit.
12. Channels for disseminating information should provide for equal, timely and cost-efficient access torelevant information by users.

(VI) Conclusions:

The root of the word Governance is from 'gubernate0', which means to steer. Corporate governance would mean to steer an organization in the desired direction. The responsibility to steer lies with the board of directors/governing board. Governance is concerned with the intrinsic nature, purpose, integrity and identity of an organization with primary focus on the entity's relevance, continuity and fiduciary aspects.The Institute of Company Secretaries of India has also defined the term Corporate Governance to mean "Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders."

Good governance is integral to the very existence of a company. It inspires and strengthens investor's confidence by ensuring company's commitment to higher growth and profits.Corporate Governance' as the application of best management practices compliance of lawin true Letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.

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