An Investigation on Cooperate Governance in Public Sector Enterprises of India

*Dr. Madhusudan Agarwal

Abstract

Corporate governance is a set of policies and practices that determine an organization's performance and direction. It encompasses a framework of rules and regulations for individuals responsible for a company, who are accountable to shareholders. Corporate governance is a widely discussed topic in today's business environment, with its legal framework being adaptable to the specific needs of each organization. This research paper focuses on corporate governance from the perspective of India, examining the obstacles faced by an emerging economy like India and highlighting the importance of following good corporate governance practices. The paper explores the evolution of corporate governance in India, including the role of ethics, internal governance, and the selection of auditors and audit committees. Finally, the paper provides an overview of how corporate governance is impacting India's current economic state.

Keywords: Corporate Governance, Consolidated, Dissect, Legal.

Introduction

Corporate governance practices have become increasingly important in today's business environment, given the escalating volatility in the global market. Businesses and economies are intricately linked to the well-being and success of individuals who prioritize corporate governance as a fundamental aspect of every organization. Corporate governance has emerged as a crucial differentiating factor for enterprises, significantly influencing their growth, development, and survival. It encompasses various corporate aspects, including the philosophy, practices, principles, and ethics followed by the management, as well as how stakeholders are treated (Dutta, et al., 2012). Therefore, corporate governance emphasizes the internal structure and protocols of the corporate board, rules governing the distribution of information to stakeholders and lenders, and the scope for management control. Corporate governance ensures sound and effective business management, which safeguards the interests of investors and ensures a reasonable return on investment. Both forms of corporate governance aim to ensure that shareholders elect their preferred directors, vote on significant measures, have full involvement in the decision-making process, adhere to accounting standards to produce more meaningful information, and comply with applicable laws and regulations.

Corporate Governance in India

Corporate governance in India is still in its nascent stage but is gradually progressing. It requires the active alignment of shareholder norms for effective management to enhance business valuation. It necessitates the active participation of both shareholders and managers, effective communication, sharing and validation of ideas, and comprehensive dialogue and debate. Corporate governance, as it cannot be implemented in isolation, needs to be woven into the corporate culture and functionality. It has a profound impact on the overall governance ecosystem, both internal and external, of the government. In recent years, India has witnessed numerous instances of misgovernance and controversies in its corporate world, prompting Indian companies to establish a transparent business conduct framework and governance transparency standards encompassing government bodies and institutions (KPMG, 2011). With the aim of fostering development and the need for harmonized global accounting practices within the framework of international business operations, corporate governance has gained recognition in India since the 1990s and was introduced to the country

Corporate Governance in Public Sector and Private Sector Enterprises of India

There exists a clear distinction between institutional investors in the public and private sectors in India. Corporate governance in state-owned enterprises remains a significant challenge in many economies, including India. The Indian government owns or controls interests in key sectors, including infrastructure, oil, gas, mining, and manufacturing. Over the years, the Government of India (GoI) has taken various measures to improve the performance of Central Public Sector Enterprises (CPSEs), including corporate governance. Governance reforms have gained prominence due to the significant role that CPSEs continue to play in the Indian economy, the increased pressure on CPSEs to enhance their competitiveness, and the listing of CPSEs on stock exchanges (Lalitha Som, ICRA Bulletin, Jun 2013). Private sector undertakings have taken the lead over their public sector counterparts in terms of perception management, projecting a positive image through the voluntary adoption of corporate governance practices. This sends a message that companies value transparency and accountability. While there has been considerable progress in implementing corporate governance practices in unlisted Central Public Sector Enterprises, more proactive measures are needed. The following PSUs should have been the torchbearers of voluntary guidelines set by the ministry:

- Maharatna

- Navratna
- Miniratna Central Public Sector Enterprises.

However, this has not been the case, resulting in CPSEs lagging behind their private sector counterparts in terms of corporate governance (KPMG, 2010)

Financial Crisis in the Context of Corporate Governance

Furthermore, Kirkpatrick (2009) has examined corporate governance in the context of the financial crisis and argues that the deficiencies in corporate governance directly impact the financial crisis through risk management systems and excessively high executive compensation. The failure of corporate governance makes the company vulnerable to the consequences of unnecessary risk-taking, particularly in financial services firms. Additionally, inadequate accounting standards and regulatory requirements have contributed to the crisis. Inadequate executive compensation practices have often failed to align with the strategic implications and risk-taking capacity of the company, its vision, and mission. These two studies are crucial to the research, as they highlight the implications of the absence or insufficient corporate governance, which can be rectifiable or disastrous. Consequently, more companies worldwide are striving to establish robust corporate governance systems. Companies are endeavoring to instill trust, ethics, and morality into the corporate culture, as well as align the expectations of various stakeholders, including governments, society, professional bodies, and the corporate sector as a whole (Madu, 2008; Fukuyama, 1995; Frankel, 2005; Northcutt, Madden, and Welti, 2004).

Objectives of the Study

The objectives of this study are as follows:

- To examine the current state of corporate governance in India.
- To study the regulatory bodies and upcoming regulations in India.
- To evaluate the weaknesses and challenges in the codes and standards of corporate governance in India and propose remedial measures.
- To assess the current state of corporate governance in 20 Central Public Sector Enterprises through case studies, including companies such as Indian Oil Company (IOC), BHEL, GAIL, SAIL, ONGC, HPCL, BPCL, ITI, HAL, RCF, Neyveli Lignite Corporation, Mazgaon Dockyard, etc.

Research Methodology

The research will begin by identifying the research problem and setting research objectives based on the research issues. A research model will be developed, focusing on the contribution of corporate governance, corporate governance practices (interdependence, transparency, accountability, fairness, social awareness, discipline, and responsibility), improvement in corporate governance, and their impact on organizational success. Both primary and secondary research methods will be employed, including testing methods, in this study.

Conclusion

In conclusion, this paper emphasizes the significance of effective corporate governance practices for organizations. It provides an overview of the history of corporate governance in India and its current financial and economic landscape. The paper delves into the underlying factors that influence corporate governance, such as ethics, internal governance, and the selection of auditors and audit committees. As an emerging economy, India is expected to continue focusing on corporate governance policies. Indian companies have the potential to create a promising future for themselves, but they need to recognize the importance of corporate governance reforms and be prepared to face the challenges that come with it. Independent directors have more defined roles and responsibilities, and the motivation should be directed towards benefiting the stakeholders. Over time, a market-based and economically driven governance mechanism will further establish itself as a stakeholder-oriented structure gaining broader acceptance among the general public.

***Associate Professor**
Department of ABST
Government Commerce College, Kota

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