Cooperate Governance in Public Sector Enterprises: An Investigation

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Abstract

Corporate Governance is the set of policies that are created for deciding a company's performance and direction. It is an overview of rules and regulations for the people in-charge of an incorporated firm. They are the ones who agree to take responsibility towards the shareholders. Corporate governance is a broad term is today's business environment. The legal outfits of corporate governance can be customized to fit the meticulous choice of each wearer. The paper will discuss corporate governance from India's point of view. It will analyze the barriers that an emerging economy like India has to face. In addition, it will explain why it is important for any country to follow good corporate governance practices. In the next section, it will look at how corporate governance became an inseparable part of Indian economy. Next, it discusses involvement of ethics, internal governance, and choice of auditor and audit committee for India. In the conclusion, the paper gives a summary of how corporate governance is influencing the present economic condition of India.

Keywords: Indian Corporate Governance, Internal Governance, Audit Committee, Ethics.

Introduction

Virtuous Governance Practices for their interfaces have already been crucial for people. Good corporate governance has become a must, though with the escalating instability in the global business climate. Commerce and the economy are intriguingly associated with the prosperity and treasures of individuals who emphasize corporate governance and find it necessary in the current scenario for every company. Corporate governance has emerged as one of the main differentiating variables for every enterprise and has a huge effect on the company's growth, development and survival. It is a deeply dynamic and multi-level mechanism arising from corporate features such as controlling management's philosophy, practices, principles and ethics and how it treats stakeholders (Dutta, et. al., 2012). Thus, Corporate Governance emphasizes upon internal structure and protocols of the Board of Directors, guidelines for dissemination of information to stakeholders and creditors, and the span of control of the Management. Corporate Governance ensures ethical and efficient business management which can ensure the shareholders, return on the Both forms of corporate governance are unanimously aimed at ensuring that shareholders appoint their elected directors, vote on important measures, full accountability in the decision-making process, implementation of accounting principles to produce more comprehensible data, compliance with land legislation.

Corporate Governance in India:

In India, corporate governance is still in its embryonic stage, but is slowly advancing. It requires advancing the effective tuning of shareholder standards for the management of the enterprise to upgrade the valuation of the business. It requires the active engagement of both shareholders and executives, correspondence, sharing and confirmation of ideas, and comprehensive debate and argument. Corporate governance, since it cannot be applied separately, has to be woven into the corporate culture and functionality. It has a major effect on the eco-system of general government, both internal and external. In recent years, there has been a lot of misgovernance and controversies in India's corporate world that have required Indian corporations to establish a judicious business conduct structure, public administration transparency norms that cover government machinery and institutions (KPMG, 2011). In view of liberalization and the need for coordinated international accounting activities within the framework of multinational business operations, Since the 1990s, corporate governance has begun to be recognized and it was brought to the nation by the Confederation of Indian Industry (CII) as a way to be embraced by Indian commercial enterprises. However, with changing times and imminent criteria, by the implementation of Clause 49 of the Listing Agreement, corporate governance was made mandatory in the early 2000s and all firms listed on the different Stock Exchanges had to comply with these rubrics. A collection of voluntary guidelines for corporate governance catering to a variety of related concerns was issued by the Ministry of Corporate Affairs in 2009 (Pande and Kaushik, 2011). Corporate governance functions, however do face multiple problems, such as the disparity between public and private sector corporate governance, inadequate enforcement of regulations, inefficient transparency, sub-standard auditing and increased investor activism (KPMG, 2011).

Corporate Governance in Public Sector and Private Sector Enterprises of India:

In India there is a noticeable disparity between Corporate Governance standards in the Public Sector and the Private Sector. Corporate Governance of State-Owned Enterprises (SOEs) remains a major challenge in many economies. In India too, the Government owns or controls interests in key sectors, including infrastructure, oil, gas, mining, and manufacturing. Over the decades, the Government of India (GoI) has taken a number of steps to improve the performance of Central Public Sector Enterprises (CPSEs), including Corporate Governance. Governance reforms have gained prominence because of the important role that CPSEs continue to play in the Indian economy; the increased pressure on CPSEs to improve their competitiveness; and the listing of CPSEs on the Stock Exchanges (Lalitha Som, ICRA Bulletin Jun 2013) The Private Sector Undertakings have taken an edge over their Public Sector counterparts when it comes to perception management, wherein company envisages an amicable image through voluntary adoption of Corporate Governance Practices. This spreads a word that companies are desirous of transparency and accountability. Even though there has been a significant progress in the implementation of Corporate Governance in the unlisted Central Public Sectors Enterprises, there is a need to be more proactive. Likewise, the following PSUs should have been the torchbearers of the voluntary guidelines of Corporate Governance initiatives by the Ministry of Corporate Affairs,

- Maharatna;
- Navratna; and
- Miniratna Central Public Sector Enterprises.

This has not happened, due to which CPSEs are trailing behind their private sector enterprises in the pursuit of Corporate Governance (KPMG, 2010).

Corporate Governance in context of financial crisis:

Adding to this, Kirkpatrick (2009) has analyzed Corporate Governance in thecontext of the financial crisis and is of the opinion that the shortcomings of Corporate Governance have an obvious impact on financial crisis by way of Risk Management Systems and unjustified high executive salaries. The failure of Corporate Governance makes the company susceptible to the consequences of the unnecessary risk taking especially in the financial services companies. Also, sub-standard accounting standards and regulatory requirements have added to the fiasco. Superlative remuneration practices for top level managers, in many cases, have not been adequately linked with strategic implications and risk taking capacity of the company, its vision and mission. These two studies are integral for the study, as they highlight the implication of the absence or lack of effectual Corporate Governance which may be rectifiable or disastrous. It is because of these corollaries that more companies globally are stressing upon establishing a robust Corporate Governance system. Companies are striving to imbibe trust, ethics and morality into the corporate culture and also synergizing the expectancies of the various stakeholders, even covering the indirect ones like government, society, professional bodies and the corporate sector as a whole (Madu, 2008; Fukuyama, 1995; Frankel, 2005; Northcutt, Madden and Welti, 2004).

Problem Statement:

Compared to the developed western world, the idea of Corporate Governance is still in its primitive stages in India. Corporate governance has more to do with it than playing with capital and carrying out corporate transparency. There are several concerns in India's corporate governance policies. The majority of shareholders exert superior power in the Indian corporate scenario. They are accountable to the Ministries in the case of Central Public Sector Enterprises (CPSEs) and should comply with the requirements set by the Department of Public Enterprises (DPE) and are subject to the Right to Information Act (RTI), CAG (Comptroller and Audit General of India) and CVCC (Comptroller and Audit General of India) (Central Vigilance Commission). Public sector companies, however, run in a highly dynamic climate. The present thesis aims to examine the activities of corporate governance at the Central Public Sector Enterprises (CPSEs) in India and to investigate the possibility of addressing the complexities of the same.

Aims and Objectives of the study:

Every research scholar undertakes a research to accomplish certain goals without which the research cannot be concluded and not even regarded as a research. Research is about exploring the unexplored and its guided through a set of rational and achievable objectives. The primary aim of the study at hand is to analyze the Corporate Governance Practices in the Central Public Sector Enterprises (CPSEs) of India and identifying its strengths and weaknesses with the backdrop of the challenges and complexities associated with it.

The other key objectives of the study are as follows:

- To analyze the present state of affairs pertaining to Corporate Governance in India;
- To study the regulatory bodies and impending regulations in India;
- To review and evaluate the shortcomings and challenges in codes and principles of Corporate Governance in India, and suggest corrective measures to tackle them;
- To assess the present condition of Corporate Governance in the 20 Central Public Sector enterprises through case companies: Indian Oil Company (IOC), BHEL, GAIL, SAIL ONGC,HPCL,BPCL,ITI, HAL,RCF, Neyveli Ignite Corporation, Mazgaon Dockyard, etc.
- To analyze the role of the Government in the Corporate Governance practices of the CPSEs.

Research Methodology:

First the research problem will be identified and based on research problems objectives will be established. A research model will be developed and based on this model wherein the study aims to contribution of Corporate Governance, Corporate Governance Practices (Interdependence, Transparency, Accountability, Fairness, Social Awareness, Discipline, and Responsibility), Improvement in Corporate Governance, and the impact towards organizational success. Both primary research and secondary research, sampling procedures will be considered in this research.

Conclusion:

In this paper, we saw how important it is for a company to follow good corporate governance practices. Then we looked at the brief history of corporate governance in India and its present economic and financial situation. Then the paper started going deep into the root cause of factors that affect corporate governance such as ethics, internal governance, and choice of auditors and audit committee. India being an emerging economy needs to work more on regulating the corporate governance policies. Indian companies still have the scope to paint a brighter future for them. They need to acknowledge and continue with the corporate governance reform, and always keep in mind that this brighter future will have its own set of challenges. The future of corporate governance is becoming a little clear now, as in the future the investors would be promoted to behave like owners rather than just traders. Independent directors will have more defined roles and responsibilities. And the incentives said to be given out to others will be distributed to the shareholders. In long run, a market-oriented and shareholder-centered system will develop into a new emerged system as stakeholder-oriented system making finance itself accountable to the public interest. We can very well conclude that, "As legal rules are, to a significant degree, endogenous to the political economy context of the systems in which they operate and so are the corporate governance practices"

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