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EFFECT OF CORPORATE GOVERNANCE IN INDIAN FIRMS WITH SPECIAL REFERENCE TO SEBI

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Abstract
Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness. It enables a company to maximize the long term value of the company which is seen in terms of performance of the company. In this paper, we focus on Corporate Governance practices followed by concerns in India. This includes parameters like Board Constitution, Board Structure, Different Committees, Independent Directors and their roles, Conflict of interest and Disclosure of information. The objective is to determine if there is a relationship between corporate governance and firm performance. The study tries to see whether higher and better corporate governance leads to better performance of the companies. It is found in the study that corporate governance practices have limited impact on both the share prices of the companies as well as on their financial performance.

Introduction

Corporate governance has become a well discussed and controversial topic in Indian concerns. Newspapers produce detailed accounts of corporate fraud, accounting scandals, insider trading, excessive compensation, and other perceived organizational failures – many of which culminate in lawsuits, resignations and bankruptcy.

Corporate governance involves a set of relationships amongst the company’s management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives are set and the means of attaining these objectives of the company are set, and the means of attaining these objectives as well as monitoring performance are determined.

Firms in India are realizing that better corporate governance adds considerable value to their operational performance:

- Improves strategic thinking at the top by inducting independent directors.
- Rationalizes the management and monitoring of risk that a firm faces globally.
- Limits the liability of top management and directors, by carefully articulating decision making process.
- Assures integrity of financial reports.
- Internal and external long term reputational effects among key stakeholders.

Definition

The system of rules, practices and processes by which a company is directed and controlled.Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community.

Principles of Corporate Governance

- **Rights and equitable treatment of shareholders**: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.
- **Interests of other stakeholders**: Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.
- **Role and responsibilities of the board**: The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.
- **Integrity and ethical behavior**: Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.
- **Disclosure and transparency**: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters

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concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Benefits of Corporate Governance

- Corporate governance ensures corporate success and economic growth.
- Strong corporate governance maintains investors' confidence, as a result of which company can raise capital effectively and efficiently.
- It lowers the capital cost.
- It creates positive impact on the share price.
- It helps in brand formation and development.
- Good corporate governance minimizes wastages, corruption, risks and mismanagement.

Drawbacks of Corporate Governance

- Easily corruptible
- Family-owned companies
- Costs of Monitoring
- Expensive
- Time consuming process

Importance of Corporate Governance

- Changing ownership structure
- Building social responsibility
- Reducing the growing number of scams
- Equity among shareholders
- Globalization

Elements of Corporate Governance

- Identity of the Body
- Definition of purpose
- Achievement of the objective
- Administration of the Body
- Relationship with the rest of the world
- Measurement of success
- Termination of arrangements

Pillars of Corporate Governance

- Accountability
- Fairness
- Transparency
- Independence

Factors Influencing Quality of Corporate Governance

- Integrity of the management
- Ability of the Board
- Adequacy of the process
- Quality of Corporate reporting
- Participation of Stakeholders
- Quality of Corporate Reporting

SEBI

Securities and Exchange Board of India was established in the year 1992 in accordance with provisions of Securites and Exchange Board of India Act 1992.

Its main role is to stop fraudulent practices in stock market.

Objectives

- To regulate the activities of stock exchange
- To protect the rights of investors
- To prevent fraudulent malpractices
- To regulate and develop code of conduct for intermediaries

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Functions

Protective Functions

- It checks price rigging
- It prohibits insider trading
- It prohibits fraudulent and unfair trade practices
- It educates investors
- It promotes fair practices and code of conduct.

Developmental Functions

- Promotes training of intermediaries of the securities market
- Promotes activities of stock exchange
- Promotes internet trading through registered stock exchanges.

Regulatory Functions

- Conducts enquiries and audit of stock exchange
- Regulates takeover of the companies
- Registers and regulates the working of stock brokers, mutual funds, etc

Clause 49 of Listing Agreements of Corporate Governance under SEBI

1. Independent Director- One-Third of the Half depending whether the chairman of the board is a non- executive or executive.
2. Non-Executive Director- Total term of office of non – executive directors is now limited to three terms of three years each.4
3. Board of Directors- The board is required to frame a code of conduct for all board members and senior management of each team have to annually affirm compliance with the code.
4. Audit Committee \- Financial statements and draft audit report, reports, analysis and results must be prepared with adherence to the rules.
5. Whistleblower policy- This has to be communicated to all employees and whistleblowers must be protected from unfair treatment and termination.
6. Subsidiary companies- 50% Non – executive director and $1/3^{rd}$ and ½ independent directors depending on whether chairman is executive or non-executive.
7. Disclosures- Contingent Liabilities, Basis of related party transactions, Proceeds from Initial Public Offering, and Remuneration of directors.
8. Certifications- Reviewing necessary financial statements and directors' report, established and maintained internal controls, any significant changes in internal control and accounting policies during the year.

My Findings

- The Indian firms were more or less stagnant till early 2000's.
- The position and goals of the Indian corporate sector has been drastically changed after liberalization.
- India's reform programme made a steady progress.
- India with its millions of shareholders is one of the largest emerging markets.

My Views (Suggestions)

- Increasing corruption must be reduced
- The economy must not be a closed one
- Insider trading must be restricted
- Sheltered market must not be on role.
- Competitive spirit must be geared up.

Conclusions

As Indian firms compete globally for access to capital markets, more they find ability to stamp foot print against world – class organizations is essential.

India was managed, protected, economy with the corporate sector operating in an insular fashion. But as liberalization have been come into action, Indian firms are merging on the global stage and discovering that the ancient and medieval ways of taking over businesses are no longer sufficient in such a fast-paced global environment. Corporate governance has limited impact on the share prices and the Indian firms follow very stringent procedures.