The Corporate Governance Emergence in India

Muneeb Ahmad1*

1Liaoning Technical University, Huludao, China.

Author’s contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

ABSTRACT

This study gives an overview of the corporate governance in India. The corporate governance issue has been emerged all around the world and still not fully developed in emerging economies like India. From the previous study in the last decade, it has been found India makes the impressive progress towards not only the implementation but also on the improvement in the system.

Keywords: Corporate governance; emerging markets; India.

1. INTRODUCTION

The intention of this research is to inspect the influence of corporate governance on organization performance and if overseas directors impact the financial outcomes of any firm in India? After the partition of Management and ownership, the significance of corporate governance has arisen. Due to some high profile frauds suchlike WorldCom [1], Adelphia (NBC News, 2005) and Enron [2] Das, A. [3], Black et al. [4] and Mohan et al. [5] corporate governance experienced attentiveness. Those scandals serve as the Stimulus to the most extensive corporate governance rules (Sarbanes-Oxley Act of 2012) in the history of the US for 70 years. Garvey & Swan [6] defined the corporation as the integration of explicit and implicit contracts, and Governance determines how the association’s administrators control such contracts. It helps to achieve the ultimate task of shareholder’s wealth expansion. If we look at more broad and detailed perception of corporate governance, Zingales [7] explained it as “allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labour market competition, organizational structure, etc., can all be thought of as institutions that affect the process through which quasi-rents are distributed”.

An Agency relationship is characterized as something in which single or more than one people (the principal(s)) connects with someone else (the agent) to make some actions/services on their sake which includes designating few decision-making rights to the agent [8]. Agency issue arises when an agent starts to seek for his benefits instead of the ultimate goal of shareholder’s wealth maximization. Express that partition of ownership and management has completely killed the governing rights that owner once practised over managers and with this

Received 14 August 2019
Accepted 24 October 2019
Published 28 October 2019
resolute power the board probably seeks after its own advantage, neglectful of the welfare of the owners (Berle & Means, 1932). This explanation by Berle & Means (1932) shows that agency theory and corporate governance are correlated to look after the firm performance. Agency problems can develop a conflict of interest between owners and management. In the same line Sanan et al. [9], Chakrabarti, R [10], Marques et al. [11], Saini et al. [12] and James et al. [13].

Stewardship theory offers restricting forecasts about the effective board structuring; Stewardship model is about one based on the executive as “steward” as opposed to fully a self-irrigued rational economic man of agency theory (Muth & Donaldson, 1998). Agency theory will, in general, accept some type of homo-economicus, which delineate subordinates as self-serving, individualistic, artful, and opportunistic. On the other hand, sociological and psychological ways to deal with governance, e.g., stewardship theory delineate assistants as collectivists, pro-organizational, and dependable (Davis & Schoorman, 1997).

2. CORPORATE GOVERNANCE IN INDIA

2.1 Importance of CG in India

The prominent corporate governance disappointments like the stock exchange fraud, the UTI fraud, Ketan Parikh fraud and biggest of all Sathyam computer services ltd fraud, etc. which was extremely scrutinized by the investors, required a need to transparent the CG in India as it enormously influences the development and success of the nation. To comprehend the extent of the legitimate structure and examine the corrections, advisory firms examine the job of managers and how they are affected by amendments. Intermediary firms present analytical information for the investors and corporate advisory services to organizations. Transparency in CG is fundamental for the development, profit, and level of stability of any corporate. The obligation for better governance has strengthened due to developing challenge amongst organizations in every solitary financial department at the national, just as a universal dimension. The Indian Companies Act of 2013 offered few dynamic and transparent processes which advantage management, directors just as the stakeholders of organizations. For the development of corporate governance in India, proxy firms and advisory services on investment give brief information to shareholders about these recently presented procedures and rules.

Advisory services are presented by advisory organizations to effectively handle the operations of organizations to assure the stability and growth of the firms, consistent with the reliability and firm image for consumers and customers. The management that contains the directors is in control of governance within the firm. They need to have viable power over forbidden relationships of the business in the presence of an appropriate concern aimed at the business and minority investors. CG assures strict and proficient use of the board operations alongside appropriate consistency with the continually changing business environment in India. CG was aided by Clause 49 for the Listing Contract before exhibition for the Companies Act of 2013. Rendering to the new planning, SEBI has furthermore affirmed positive changes in the Listing Contract to improve the truthfulness in interactions of recorded companies and providing a greater state to minority associates in influencing the decisions of the board. These modifications have curved out to be influential from first October 2014.

Corporate administration has seen from the investors’ viewpoint, which implies the principals’ inspiration to larger the shareholder’s wealth, or from the authoritative viewpoint, as far as controlling of systems to control and keep up business activities [14]. Likewise, Tricker (1984) stated that “Governance is not quite the same as the management; and includes setting the firm direction, association in executive activities, supervision and accountability." Corporate administration stretches out past the limited bounds of the managers, and include the mechanism control, principles and guidelines of organizations as designated by (Gillan & Starks, 1998). A generally used framework to abstract the connection between an organization’s performance and hierarchical structure is agency theory, Denis & McConnell [15] portrayed that as far as being a statement of property rights in corporate administration by principals; any understanding of firm structure must begin with the condition that investors are the leaders (owner) in the firm.

On the other hand, some studies showed a different perspective and the negative aspects related to larger board size. Jensen [16] argues that a CEO can control small boards effectively and small boards can have a positive impact on organization’s performance, less than to 8 board
members will work viably, and there would be fewer chances of conflict between them. Lipton & Lorsh [17] supported this argument by stating that excess of ten individuals in the board can trouble them to express their thoughts and suggestions in the constrained time available (most of the members have time shortage to perform their tasks), though they should be free and frequent with their suggestions.

If we link it with agency theory, a larger board size can cause more agency problems. At the point when boards get the chance to be too huge, agency issues increment and the board turns out to be more representative and less a part of the organization procedure [18]. Yermack [19] examined this view empirically and supported it; He looks at the connection between Tobin's q and magnitude of a panel on an example of vast U.S. enterprises and his outcomes recommend that there is a critical negative connection between boarding size and q.

3. CONCLUSION

Today, corporate governance has been developed as an important area for research. Some arrangements to concentrate governance of operations to achieve the ultimate purpose for the business of investor’s wealth maximization. Literature has debated this issue of conflict of benefits amongst managers and investors. Good corporate governance will always assure the best use of company’s resources and work efficiently to increase the wealth of the company’s investors.

There is a lot of research in developed countries related to this issue like UK and USA etc. but comparatively less research in developed countries. So, my research will contribute to the area of study in several ways. By using the database and financial reports of companies, the results will develop our knowledge of CG with the framework of agency theory in India. Results showed the impact of various corporate governance characteristics on an organization’s performance within India. Other developing countries neighbouring to India with the same kind of social-political or economic environment can have similar results.

COMPETING INTERESTS

Author has declared that no competing interests exist.

REFERENCES


