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Corporate Governance in India: Issues, Challenges and Prospects

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ABSTRACT:
Corporate Governance is the framework through which companies are directed and controlled. It aims to balance economic and social objectives, aligning personal and community goals, thereby promoting transparency, accountability and fairness. In India, corporate governance gained prominence after major financial scams such as Satyam, Harshad Mehta and Nirav Modi. Despite regulatory frameworks like the Companies Act 2013, SEBI guidelines, ICAI accounting standards and ICSI secretarial standards, corporate governance failures continue to emerge. This paper examines the principles, importance, challenges and case studies of corporate governance in India, with special emphasis on Infosys as a role model of good practices. It further explores issues such as board independence, risk management, CSR and transparency and suggests measures to strengthen governance practices for sustainable growth.
KEYWORDS: Corporate Governance, Transparency, Board of Directors, Shareholders, SEBI, Companies Act 2013, Corporate Social Responsibility, Infosys, India.

INTRODUCTION:

Governance is the act of governing a corporate body, as suggested by the term's definition. Because the entity of a business is distinct from its executives, corporate governance is an essential topic to examine. Corporate governance is concerned with maintaining a balance between economic and social objectives and personal and community objectives. The purpose of the corporate governance framework is to both promote the efficient use of resources and demand responsibility for their management. Corporate governance must establish a culture of awareness, transparency and openness. Corporate governance is the promotion of corporate equity, openness and responsibility. It is a collection of laws, rules, regulations, processes and voluntary activities that allow corporations to maximise the long-term worth of their shareholders. In other words, Corporate Governance refers to a collection of rules or norms governing a corporation. It ensures that the organisation functions as intended to fulfil its objectives. It keeps organisations responsible to all stakeholders, such as directors, shareholders, workers and consumers. Corporate governance plays a crucial function in protecting the interests of thousands of shareholders who own the firm but do not actively participate in controlling day-to-day business operations.

Review of Literature:

Corporate governance research in India spanning disciplinary disciplines, including finance, corporate governance methods, earning management, business performance and firm value, is very variable and fragmented. Other studies revealed that specific corporate governance attributes only have a positive impact on firms' performance; larger board size and attendance of board members (Bhatt & Bhattacharya, 2015), promoters' ownership (Mishra & Kapil, 2017), board age diversity (Kagzi & Guha, 2018), board size and CEO Chairman dual role (Bansal & Sharma, 2016), independent women directors (Sanan), board independence, board size and busyness (Bansal & Sharma (Mishra & Kapil, 2018). Other research claims that corporate governance traits do not correlate with business success.

The goals of corporate governance are:

Corporate governance is to boost shareholder wealth and protect other stakeholders. The World Bank defines corporate governance as a combination of law, regulation and appropriate voluntary private-sector practices that allow a company to attract financial and human capital to perform efficiently, prepare itself by generating long-term economic value for its shareholders and respect

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the interests of stakeholders and society. Corporate governance attempts to promote investor trust, leading to growth and profitability. The following are mentioned:

• A competent Board capable of making independent and impartial judgments is in place at the organisation's leadership.

• The Board's representation of non-executive and independent directors, who will look out for the interests and well-being of all stakeholders, is well-balanced.

• The Board supports open processes and practices and bases its judgments on sufficient information.

• The Board has an excellent system for comprehending stakeholder issues.

• The Board keeps shareholders informed of significant company-related developments.

• The Board effectively and routinely reviews the management team's performance.

• The Board constantly maintains effective control over the company's activities.

Fundamentals of Corporate Governance:

The principles of Good Corporate Governance are as follows:

• **The Board of Directors' Responsibility:** The Board is accountable for the company's management. As a collective entity, it must work in the company's best interest and serve all shareholders by guaranteeing its long-term prosperity. In their discussions, they must take corporate social responsibility and the interests of all stakeholders into account.

• **Composition of the Board of Directors and Special Committees:** The Board should consist of qualified, trustworthy and capable individuals. The selection of these individuals must consider the organisation's unique characteristics. The board shall form the special committees required to carry out its duties effectively.

• **Appointment of Board of Directors Members:** The corporation should develop a proper mechanism for the appointment of Board of Directors members.

• **Professional Ethics:** The Directors must conduct their duties honestly and thoughtfully. Each should represent the shareholders and make decisions in the firm's best interest, regardless of any potential conflicts of interest.

• **Executive Management:** The Board shall establish a body responsible for the efficient executive management of the company's operations. It must clearly describe the tasks and responsibilities of the Executive Management and give the necessary authority for their execution.

• **Pay Policy:** The firm should adopt a fair remuneration policy for its Directors and Executive Management that is consistent with its long-term objectives.

Business governance has been a feature of the Indian corporate sector since its inception. However, Satyam Computer Services Limited's corporate governance failure and fraud have raised concerns about India's corporate governance. In India, corporate fraud and governance failure have occurred often over the last decade; hence, the nation needs improved corporate governance. Regulations and legislation govern a corporation in India that meet international criteria. Much more goes into a company's position and image than earnings, market valuations, P/E multiples and revenues. Corporate governance is one example of such a force. After several scandals, tarnished reputations and economic downturns, businesses have realised that a few basic moves toward improved governance may have spared them years of labour. Most businesses pursue financial advantages and take corporate governance for granted. Due to a lack of confidence in governance, investor attitudes deteriorate, resulting in massive outflows of FII funds, sales by majority shareholders, a decline in market value, etc. Designing the corporate governance structure in India is no easy undertaking. The requirements and basics differ across sectors, industries and nations. For banks and the healthcare industry, solid corporate governance is essential.

Corporate Governance's Importance in India:

Corporate governance safeguards not just the interests of management but also stakeholders and encourages India's economic growth among the world's rising economies. "The shareholders of a corporation with effective corporate governance have much greater trust in that organisation.

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Confident and independent directors contribute to a good perspective of the firm on the financial market, which has a beneficial effect on the share prices" [2]. Corporate governance is crucial for foreign institutional investors to consider when deciding which firm to invest in.

India's Corporate Governance Framework:

The corporation must develop a clear and open structure for corporate governance and offer helpful information. The Indian framework for corporate governance focuses on:

• safeguards for minority shareholders;
• timely reporting and proper shareholder disclosures; and
• corporate social responsibility

The Indian Corporate Governance structure has been substantially in line with international norms. Generally, it may be characterised as follows: "The 2013 Companies Acts include laws about Independent Directors, Board Constitution, General Meetings, Board Meetings, Board Procedures, Related Party Transactions, Audit Committees, etc. The SEBI (Securities and Exchange Board of India) Rules safeguard investors and require businesses to conform to the best practices outlined in the guidelines" [5]. Accounting Standards are established by the ICAI (Institute of Chartered Accountants of India), an independent organisation that sets accounting standards. "The ICAI and Section 129 of the 2013 Companies Act also mandate the publication of financial accounts. Companies whose shares are listed on several stock exchanges are subject to the Standard Listing Agreement of Stock Exchanges "[6]. Secretarial Standards ICSI (Institute of Company Secretaries of India) standards on "Board Meetings," "General Meetings," etc. The 2013 Companies Act authorises an independent authority to establish the criteria that each firm must conform to avoid being fined under the Companies Act. How Corrupt Business Practices Led to India's Largest Corporate Governance Failures Listed below are the corrupt business practices that led to India's most significant corporate governance failures. "Harshad Mehta Scam (1992), Ketan Parekh Scam (1999-2001), Tata-Mistry fallout (2006), Satyam Scam (2009), Saradha Chit Fund Scam (2013), PACL Scheme Scam (2015), PNB-Nirav Modi Scam (2018), Jet Airways (2019), Dewan Housing Finance Limited (DHFL) (2019), YES Bank (2020) and ICICI Bank-Videocon bribery case are examples (2020" [7]).

Corporate Governance Case Study: Infosys

Infosys's Corporate Governance concept is founded on the following tenets:

• Complying with the spirit of the law as well as its wording
• Exceeding legal requirements to sustain corporate governance norms
• Maintaining high levels of openness and disclosure
• Drawing a clean line between personal convenience and business resources
• Communicating accurately and openly about how the firm is managed internally
• Complying with the legislation in each country where the business works
• Having a straightforward and transparent organisational structure driven only by business requirements
• Adopting a concept of trusteeship in which the management is not the owner but the trustee of the shareholders' money.
• Conducting business by the credo "when in doubt, reveal."

Implementing Good Government:

A robust, diversified and independent Board enables the implementation of sound corporate governance across the organisation. "Throughout the year, independent Board Committees collaborate to drive best-in-class governance processes. Infosys was the first Indian business listed on NASDAQ and included in the NASDAQ 100 Index. Infosys has a reputation for establishing excellent corporate governance standards and pioneering the implementation of innovative techniques" [8]. Infosys, for instance, was the first firm in India to implement the Employee Stock Ownership Plan (ESOP). A first-of-its-kind enlarged equity ownership scheme linked with Total Shareholder Returns was also introduced (TSR). Please see 'Milestones' below for further details.

"Infosys was ranked as a leader in corporate governance for the third consecutive year in fiscal 2020, according to a study conducted by BSE Limited (BSE), the International Finance Corporation (IFC) - a member of the World Bank Group and Institutional Investors Advisory Services (IiAS) based on G20/ OECD principles" [9].

A comprehensive policy framework is maintained through periodic policy reviews. Effective performance metrics include a review of the board by a third party. Infosys uses several venues to disseminate its practices and promote improving corporate governance standards. "Among them is the Confederation of Indian Industry (CII), the Federation of Indian Chambers of Commerce & Industry (FICCI), the Associated Chambers of Commerce and Industry of India (ASSOCHAM), NASSCOM, the Securities and Exchange Board of India (SEBI), the Institute of Directors, the Ministry of Finance and the Ministry of Corporate Affairs (Government of India), to name a few" [10].

Guaranteeing Transparency and Stakeholder Participation:

The tone for openness is established from the very top. The aphorism "When in doubt, reveal" is an Infosys management practice. "Compliance with global rules, standards and corporate governance regulations ensure timely and accurate disclosures by Indian Accounting Standards (Ind AS) and International Financial Reporting Standards (IFRS) criteria. Corporate governance benchmarking via Standard & Poor's, ICRA and CRISIL is one of the best practices in this industry" [11]. ICRA has awarded Infosys the highest Corporate Governance Rating (CGR). This award recognises the robustness of our senior management structure, the superiority of our disclosure methods and our very transparent standards.

Corporate Governance Issues in India:

Even though there are several concerns and obstacles in the subject of Corporate Governance, particularly in India, an attempt has been made to emphasise just the most significant ones:

• Board Performance: The balance between executive and non-executive directors is not maintained. Periodic evaluations lack transparency. Performance is not results-driven. Usually, these requirements are not met. Independent directors are chosen for a goal that is not being fulfilled. Even after SEBI set guidelines for audit committees and clearly defined independent directors, the situation worsened.

• Accountability to Stakeholders: This obligation is not limited to shareholders or the corporation but extends to society and the environment. Directors must not just consider their interests but also those of the community.

• Risk Management: According to the Company Laws, directors must use risk management procedures, which they must also include in their shareholder reports. This is not being performed with the requisite level of sincerity.

• Privacy and data protection is a crucial governance concerns. Cybersecurity has become the most vital part of the current government. Good governance cannot be accomplished unless the directors and other corporate executives thoroughly understand the risks in this industry.

• Corporate Social Responsibility: As one of the few nations to regulate CSR, corporations must spend a minimum of 2% of their three-year earnings on CSR efforts. In the event of failure, appropriate explanations must be included in the reports. Companies seem to be hesitant to make such investments.

Overcoming Corporate Governance Problems in India:

Companies' directors are solely responsible for conforming to the standards and procedures specified in numerous laws and regulations. In addition to the rules and standards set by different organisations from time to time, corporations are also required to behave responsibly towards society as a whole, given that the size of corporations has grown and they now influence every person of the nation either directly or indirectly.

The regulatory agencies have already lessened the burden placed on corporations by amending many regulations. To address the concerns of corporate governance, it is also necessary for the

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stakeholders to engage in the decision-making processes alongside the board of directors. The regulatory body has taken numerous initiatives to address corporate sector governance challenges and has created committees to offer remedies. "In India, there are the following Corporate Governance Committees: CII Committee (1998), Kumar Mangalam Birla Committee (1999), Naresh Chandra Committee (2002) and N R Narayana Murthy Committee (2003). (2003)" [13].

Corporate Governance Problems in India:

• Selection and Board tenure: Adopting a selection method in Indian enterprises hinders corporate governance. The statute requires executive, non-executive, independent and female directors. Most Indian companies exist on paper; board appointments are made by "word of mouth" or other board members. Board members are generally promoters' friends and family. No company wants to nominate board members for life because it leads to entrenched beliefs and power grabs. If the board is small, they will not make good long-term decisions since they will be replaced or relieved of their duties. The board's length must be carefully considered. Typically, directors serve two to five-year terms, which is ideal for changing a subgroup of members rather than the entire board at once.

• Performance Evaluation of Directors: India's capital markets regulator, SEBI, released a "Guidance Note on Board Evaluation" Subject and Process of Evaluation, Feedback to Assessees, Action Plan Based on Evaluation Results, Stakeholder Disclosure and Board Evaluation Frequency and Responsibility. The evaluation findings must be made public to receive the anticipated results from the performance review, which might cause significant problems for the organisation.

• Absence of Director Independence: The Kumar Mangalam committee on corporate governance proposed the appointment of independent directors in 1999. Independent directors have had little impact. The promoters pick most companies' directors, which is problematic. To achieve success, limit the promoter's control over independent directors' subjects.

• Removal of Independent Directors: Promoters or majority shareholders may dismiss an independent director. Promoters remove independent directors who disagree with their selections. Directors must serve promoters to keep their jobs. The International Advisory Board of SEBl has recommended increasing director selection and removal transparency.

• Liability Toward Stakeholders: The 2013 Indian Firm Act states that directors must consider other stakeholders, including the environment. Boards typically minimise and ignore this obligation. The entire board should be present at general meetings so that stakeholders may ask questions.

• Founder/Extensive Promoter's Role: In India, promoters or founders often influence company decisions, not independent enterprises. Indian family-owned enterprises are hesitant to sell. Board and management influence choices. Because they held many business shares. To solve this issue, widen the shareholder base and reduce founders' stakes.

• Transparency and Data Protection: Corporate Governance is based on openness; however, no information should be given. In today's competitive environment, wrong information may be dangerous. Digitalisation poses substantial privacy and data protection issues. The board must be able to process and secure data.

• Business Structure and Internal Conflicts: Businesses with several layers of management, executives and other authorities hinder efficient governance. Executives find it challenging to get reliable, essential data from lower levels and give directives since data might be biased at any point along the chain.

Recommendations for Effective Corporate Governance:

The directors of corporations have a heightened responsibility to implement the standards and best practices stipulated by several laws and regulations. In addition to the rules and standards imposed by different organisations from time to time, firms are required to behave correctly towards society since, in the modern period, corporations are so giant that they have an equal influence on every

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member of the nation. Companies are expected to comply with a set of standards but are not required to make changes. In addition, the stakeholders must participate in the decision-making processes for this position to be productive.

CONCLUSION:

Corporate governance is not merely a regulatory requirement but a necessity for long-term business sustainability and investor confidence. In India, despite the existence of strong legal and regulatory frameworks, issues like lack of board independence, dominance of promoters, weak risk management and poor accountability remain. Case studies such as Infosys demonstrate that ethical governance, transparency and accountability are not just desirable but essential for global competitiveness. Companies must recognize that governance is as important as financial performance. Strong governance safeguards investors, improves corporate image and attracts foreign capital. To overcome the challenges, India needs stricter enforcement of laws, greater transparency in board appointments and active participation of stakeholders. Only by embedding ethics and accountability into the corporate DNA can Indian businesses achieve sustainable growth in the global economy.

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