STUDY ON PROBLEMS OF CORPORATE SECTOR IN INDIA

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Abstract: In this modern digitalized world, businesses are required to be mindful both in terms of what they are doing and how they are doing it. The company's brand is not just dependent on the quality of products they are offering to people but on the overall impact of the company's operations on the society, environment and the economy. Their sense of social responsibility provides them with a competitive edge over their competitors in a crowded marketplace. CSR is a holistic and integrated management concept whereby companies integrate their social and environmental objectives with their business objectives. It works on a Triple Bottom Line Approach i.e. Company focuses on 3P's; People, Planet & Profit while addressing all the expectations of its stakeholders. The majority of policy initiatives in the country are driven by the objectives of equal opportunities, minimizing poverty and human deprivation, focus on fundamental rights, etc. thereby leading to strong human development. The choices that we make today will be going to affect and influence our future generations. Despite all this inequality and disparity still exists. This year, the Indian Government implemented new CSR guidelines. These guidelines require Indian companies to spend 2 percent of their net profit on CSR. India is the first country in the world to make CSR mandatory. Including the CSR mandate in Companies Act, 2013 is a great step of engaging the corporate sector in the equitable development of the country. Earlier companies were required to spend 2 percent of the profits towards CSR and in case of failure to do so; they were required to give reasons. But as per the present amendment, companies are required to spend 2 percent of profits towards CSR in the given time limit or are required to turn over this amount of profits in the funds which are run by the government. The new amendment will require all the companies which qualify the provisions under CSR guidelines to spend the specified part of their profits towards Corporate Social Responsibility without failing.
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1. Introduction:

India launched a series of economic reforms in 1991 in response to a severe balance of payments crisis, many of which directly or indirectly led to a substantial liberalization of the corporate sector. The reforms aimed at easing restrictions on firms' activities and enhancing overall competition by putting an end to the 'license raj,' liberalizing the foreign trade regime, and opening the financial sector. The freeing of capital markets and entry of foreign investors brought new financing and ownership opportunities and significantly raised the volume of new equity issues. While India withstood the Asian financial crisis of 1997–98 comparatively well, the fallout from the crisis demonstrated that the corporate sector could play an important role in transmitting financial shocks and putting the financial sector at risk. Mismatches in the corporate sector's balance sheet brought to light both domestic and external vulnerabilities. As evidenced in the Asian crisis, the deterioration in creditworthiness of large segments of the corporate sector sharply increased nonperforming loans (NPLs), curtailed new investment, and contributed to capital flight, all of which adversely affected economic activity as a whole. This paper uses firm-level data to examine the performance of India's nonfinancial corporate sector since 1989 and evaluate its financial vulnerabilities. The 1990s were a dynamic period for most Indian companies, especially in the first half of the decade, which was characterized by high sales growth, improved profitability, and strengthened finances. The second half of the 1990s witnessed some reversal of these trends, with the variation in the performance of Indian companies increasing and the gap between the best and worst performers growing substantially, as firms were forced to compete in the new economic environment. Yet, despite some signs of weakening in the corporate sector, most indicators are still at comfortable levels, and there is evidence of improvement in almost all indicators during 2002, the last year in our sample. However, an examination of the balance sheets of Indian companies suggests that an increasing number of firms could face problems servicing their debt obligations, which may pose some risk to lenders. In particular, the aggregate interest coverage of the nonfinancial corporate sector indicates a share of potential NPLs in total corporate borrowings of as high as 38 percent in 1999, and down only slightly

in recent years.2 This underscores the need for close monitoring of the corporate sector in the future.

2. Aims of Corporate Governance

Good governance is an integral to the very existence of a company. It's nothing more than how a corporation is administered or controlled. Good governance inspires and strengthens investors' confidence by assuring company's commitment to high growth and earnings. The need for the growth of corporate governance concept is of course and basically deals with to achieve objects of corporate governance.

The system of corporate governance is to achieve the specific goals to fulfilling long- term strategic pretensions of owners. To taking care of the interests of employees. To consideration for the atmosphere and regional community to maintaining excellent relations with guests and suppliers. To fulfil all the applicable legal and regulatory conditions.

By using corporate governance procedures wisely and participating results, an organization can motivate all stakeholders to figure toward the corporation's goals by demonstrating the advantages to stakeholders, of the pot's success. Good governance is good business. To conclude, by and large attempt of the Board should be to take the organisation forward and to maximize future value and shareholders wealth.

3. Why corporate governance is important?

Changing ownership and business structure:

In recent years, the ownership structure of companies has changed a lot. Now Public financial institutions, mutual funds, etc. are the single largest shareholders in most of the large companies. They have effective control on the management of the companies.

They force the management to become more efficient, transparent, accountable, etc. They also ask the management to make consumer-friendly policies, to protect all social groups and to protect the environment. That is how the changing ownership structure has resulted in corporate governance.

Scale of business activities has grown in manifolds. For obtain the economies of growth many takeovers and mergers takes place in the business world. And corporate governance is required to protect the interest of all the parties during that takeovers and mergers.

Increased importance of corporate social responsibility:

In current scenario corporate social responsibility is given a lot of importance. As businesses gain everything from society so society also has some expectation from businesses. And responsibility for fulfilling these expectation by corporate is called corporate social responsibility. Social responsibility requires from the board to protect the rights of the every related party i.e. customers, employees, shareholders, suppliers, local communities, etc. For fulfilling all these liabilities they need corporate governance.

Increased corrupt practices in business:

In recent years, many scams, frauds, and corrupt practices have come to light. Misuse and misappropriation of public funds are happening in the stock market, banks, financial institutions, companies, and government offices at large scale. For the purpose to avoid these financial irregularities, many companies have started corporate governance.

Inactiveness of shareholders:

shareholders only attend the Annual general meeting of their companies. They are generally inactive in the management. Shareholders' associations are also not strong. Directors generally make a profit of this situation and misuse their power. So, there is an imperative need for corporate governance to protect all the stakeholders of the company.

Globalized era:

As now Indian economy had become globalized, most big companies are selling their goods in the global market. For maintaining and growing they have to attract foreign investors and foreign customers and they also have to follow foreign rules and regulations. All this requires corporate governance. Without Corporate governance, it is impossible to enter, survive in the global market.

Legal bindings:

Practice of corporate governance is also required by the law. In India SEBI and Indian companies, the Act defines the scope and process of corporate governance.

Development of Corporate Governance in India

The notion of good governance is really old in India dating back to third century B.C. Where Chanakya (Vazir of Parliputra) developed fourfold duties of a king Raksha, Vriddhi, Palana and Yogakshema. Substituting the king of the State with the Company CEO or Board of Directors the principles of Corporate Governance refers to securing shareholders wealth (Raksha), enhancing the wealth by proper use of Assets (Vriddhi), maintenance of wealth through profitable ventures (Palana), and above all protecting the interests of the shareholders (Yogakshema or safeguard).

Corporate Governance wasn't in the agenda of Indian Companies until the early 1990s and no one would find an important reference to this subject in the book of law till then. In India, weaknesses in the system such as undesirable stock market practices, boards of directors without satisfactory fiduciary liabilities, poor disclosure practices, lack of transparency, and chronic capitalism were all crying for reforms and upgraded governance.

4. Issues and Challenges in Corporate Governance

Selection procedure and term of Board:

The selection procedure adopted in Indian corporations is the biggest challenge for good

corporate governance. Law requires a healthy mix of executive and non-executive directors, independent directors, and woman directors. Most companies in India tend to only comply on paper; board appointments are still by way of word of mouth or fellow board member recommendations. It is common for friends and family of promoters and management to be appointed as board members.

Life-term board members can pose many problems to business say fixed beliefs, power gaining etc. so no business prefers to appoint board members for life-term. And if the board is very short then they will not take long term decisions with full of their efficiency because in long run they will be changed or relieved from their duties. So the term of board must be fixed with due attention. Typically in a board of directors, directors sit for a brief term say 2 to 5 years and it is good practice to switch some of directors at a fixed time interval instead of changing whole board at a single time.

Performance Evaluation of Directors:

SEBI, India's capital markets regulator, has released a 'Guidance Note on Board Evaluation' in January 2017. Which cover all major aspects of Board Evaluation including the Subject & Process of Evaluation, Feedback to the persons being evaluated, Action Plan based on the results of the evaluation process, Disclosure to stakeholders, Frequency & Responsibility of Board Evaluation. But for achieving the desired objectives from performance evaluation, they need to make the evaluation result public and these disclosures may put the corporate in big trouble.

Missing Independence of Directors:

Independent directors' appointment was supposed to be the biggest corporate governance reform by kumar mangalam committee on corporate governance in 1999. However in reality independent directors have hardly been able to make the desired impact. Till now the appointment of directors in most of companies is made at the discretion of promoters, so it is still questionable. For providing the true success it is necessary to limit the promoter's powers in matters relating to independent directors.

Removal of Independent Directors:

Under law, an independent director can be easily removed by promoters or majority shareholders. When an independent director doesn't take the side with promoter's decisions, they are removed from their position by promoters. So to save their post directors have to work for the interest of promoters. To resolve this issue SEBI's International Advisory Board had proposed an increase in transparency for the appointment and removal of directors.

Liability toward Stakeholders:

Indian company act 2013 mandates that directors owe duties not only towards the company and shareholders but also towards the other stakeholders and for the protection of the environment. But generally, board tries to limit and escape from these kinds of accountability good idea to require the entire board to be present at general meetings to give stakeholders an opportunity to pose questions to the board.

Founder/Promoter's extensive Role:

In India, instead of separate entity of businesses, promoters or founders continuously influence the business decisions Family owned Indian companies suffer an inherent inhibition to let go of control. They affect the decisions by influencing the board and management. This is done because they had the significant portion of company's share. So to remove this issue it will be good idea to amplify the shareholder base and reduce the shareholding of founders.

Transparency and Data Protection:

Corporate governance is based on the principle of transparency but it cannot be defined what information is to be disclosed or not. In today's cut throat environment of competition it can be very dangerous if wrong information be disclosed. In digitalization Privacy and data protection is a central governance issue. For this the board must be capable of handling data and to ensure the protection of such data from potential misuse. And by looking at the importance of data and the potential cost if data be misused, we can say that organization must invest a reasonable amount of resources to protect the data.

Business Structure and internal conflicts:

Business structures also put hindrance on the way to good governance as they require many layers of management, executives and other officers. This makes it very difficult for the company leaders to receive accurate, important data from the lower levels and to command orders to lower level of the company as the data may be distorted at any point of chain. Board of executives can make much good decisions and policies. But if the internal relationship in the organization says between board and managers is not good then the implementation of decisions and policies also get affected. Rebellious managers can sabotage corporate decisions and policies at many levels of the business.

Environment of mistrust:

In recent years, many scams, frauds, misappropriation of public money, and corrupt practices have taken place and because of the doubtful practices of key executives and board members, confidence of investors and society has diminished. It is happening in the stock market, banks, financial institutions, companies and government offices. This has made the business environment distrustful

Challenges & Imperatives

A corporation should be fair and transparent to its stakeholders in all its transactions. This has turn imperative in present's globalized business world where corporations need to access global pools of capital need to attract and retain the good human capital from various parts of the world. Unless a

corporation embraces and demonstrates ethical conduct, it'll not be capable to succeed.

What's Corporate Governance it's known fact that vital necessities of success of any association lingers on its ability to mobilize and use all kinds of resources to meet the objects easily set as part of the planning process.

Corporate governance is about ethical conduct in business. Ethics is concerned with the law of values and principles that enables a person to choose between right and wrong. Further, ethical dilemmas arise from clashing interests of the parties involved. It's enough possible that in the effort at arriving the best possible financial results or business results there could be attempts at doing things which are verging on the illegal or indeed illegal. There's also the possibility of grey areas where an act isn't illegal but considered unethical. These raise moral issues.

The quick migration of four elements across national borders. These are:

Physical capital in terms of plant and machinery;

pecuniary capital;

Technology; and

Labor.

Strong corporate governance is essential to flexible and vibrant capital markets and is an important instrument of investor protection.

Companies raise capital from market and investors suffered due to unscrupulous guidance that performed much worse than past reported figures. Numerous corporates didn't pay heed to investors grievances.

The board of directors and the elderly position administration of an enterprise- walking their talk. It's by walking their talk that the top administration can earn credibility. This also has a direct bearing on the morale of an organization.

When it comes to the hardware aspect of corporate governance, we go into the issue of a law, which becomes a reference point for actions. But the sad fact in our country is that even though there's a lot of talk about corporate governance, when it comes to reality, nothing big happens.

In the Indian context lack of clarity that leads to corrupt or illegal actions.

Maybe the most important challenge we face towards better corporate governance is the mindset of the people and the organizational culture. This change will have to come from within.

Another important aspect is to realise that eventually the spirit of corporate governance is more important than the form. Substance is more important than style. Values are the substance of commercial governance and these will have to be definitely articulated and systems and procedures devised, so that these values are practiced.

We then come to a common moral problem in running enterprises. One can have practices which are legal but which are unethical. In fact, numerous a time, tax planning exercises may border on the fine razor's edge between the rigorously legal and the patently unethical.

5.Conclusion

The concept of corporate governance hinges on total transparency, integrity and responsibility of the administration and the board of directors. Be it finance, taxation, banking or legal structure each and every place requires good corporate governance. Corporate Governance is a means not an end, Corporate Excellence should be the end. Once, the good Corporate Governance is achieved and the Indian Commercial Body will shine to outshine the whole world.

In the Indian context, the need for corporate governance has been pointed because of the frauds occurring constantly since the emergence of the concept of liberalisation from 1991. We had the Harshad Mehta fraud, Ketan Parikh Scam, UTI fraud, Vansishing Company Scam, Bhansali Scam and so on. In the Indian corporate scene, there's a need to induct global standards so that at least while the scope for frauds may still exist, it can be at least reduced to the minimum.

Corporate governance and ethical actions have a number of advantages. Primarily, they help to make good brand image for the company. Once there's a brand image, there's greater faithfulness, once there's greater loyalty, there's greater commitment to the employees, and when there's a commitment to workers, the workers will turn more creative. In the current competitive atmosphere, creativity is vital to get a competitive edge. Corporate Governance in the Public Sector cannot be avoided and for this reason it must be embraced. But Corporate Governance should be embraced because it has much to offer to the Public Sector. Good Corporate Governance, Good Government and Good Business go hand in hand.

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