Indian Corporate Governance Regime : An Overview

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In recent years, even after introduction of the new Companies Act, 2013 and the Listing Obligations and Disclosure Regulations, 2015 and their frequent amendments, there are several incidents about corporate governance compliance. There are also various measures initiated by various agencies indicating challenges about compliance.

THE INDIAN CORPORATE GOVERNANCE REGIME

It has always said that Good governance and good corporate governance have been clearly distinguished by the Supreme Court. It has been mentioned that “Whereas good governance would mean protection of the weaker sections of the people; so far as good corporate governance is concerned, the same may not be of much relevance.” Good governance is an essential prerequisite for sustainable success. Likewise, good corporate governance provides direction for a company, which describes structures and procedures to direct and control companies, to increase the BoDs’ accountability to shareholders, promote effective risk management, encourage discipline, transparency, social responsibility and eventually building investor trust.

Mr.G.N. Bajpai, ex-chairman of SEBI was of the view that “Good governance, over and beyond its process aspects, is fundamentally a sustainability issue - good governance could result in the creation and fair distribution of tangible benefits.”

During recent times, corporate governance has gained significant attention and focus worldwide.

India too has made commendable regulatory efforts for the very high maturity levels of corporate governance. Let us look at some of them

1. The Companies Act, 2013

The newly enacted Companies Act, 2013 (The Act) seeks to imbibe corporate governance within its domain by making certain good governance requisites mandatory. For achieving this objective, this Act seeks to lay greater emphasis on governance through the board and its processes. With significant changes to board compositions, the newly formed act seeks to ensure transparency in the corporate governance mechanisms by entrusting greater responsibility and obligation on the Board of Directors and Management in Indian companies.

Some points related to the act and corporate governance are as under :

(a) Appointment of Independent Directors
(b) Specifying the Duties of Directors
(c) Establishment of Various Committees
    a. Audit Committee
    b. Nomination and Remuneration Committee
    c. Stakeholders Relationship Committee
    d. Corporate Social Responsibility Committee

These are some of the provisions in the Companies Act, 2013. However the act has been amended more than a couple of times to incorporate the changes with related developments.

2. Securities and Exchange Board of India's (SEBI's) Corporate Governance Norms

SEBI has brought various regulations titled as " Listing Obligations and Disclosure Regulations 2015" The key points in this context can be put as under :

- Devising a mandatory whistle blower mechanism in a company enabling the stakeholders, including individual employees and their representative bodies, to freely communicate their concerns about illegal or unethical practices.
- Combination of executive and non-executive directors (50% of BoD) with at least one woman director.
- Maximum tenure of independent directors to be five consecutive years.
- Performance evaluation of Independent directors – to be conducted by entire BoD (excluding the evaluateddirector).

- Independent Audit Committee – two-third members be independent directors, at least one member to have accounting or related financial management expertise. Expanded role with mandatory performance evaluation.
- Nomination and Remuneration Committee shall disclose the remuneration policy and the evaluation criteria in its Annual Report.
- Constituting a Risk Management Committee to be delegated monitoring and reviewing of the risk management plan framed by the BoD.
- Establishment of a 'Stakeholders Relationship Committee' with the non-executive director as the chairman, to look into the grievances of the security holders of a company.

We have to understand here that tremendous amount of money is pumped into equity market of the country in two ways. One – by directly investing into equity from retail investors. And Second by way of Mutual Funds.

But we have also to understand that ultimately the a huge sum of amount is ultimately invested into the corporates which are expected to follow the norms prescribed for the corporate governance.
