International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 6 June 2022, pp: 1998-2003 www.ijaem.net ISSN: 2395-5252

# Corporate Governance: Issues, Opportunities and Challenges

Dr.Divya Sharma
*(Assistant professor, Aditya college, Gwalior)*

Submitted: 15-06-2022 Revised: 20-06-2022 Accepted: 25-06-2022

**ABSTRACT**

In today's globalised world, corporations need to access global pools of capital and to attract and retain the best human capital from various parts of the world. Under such a scenario, unless a corporation embraces and demonstrates ethical conduct, it will not be able to succeed. Ever since India's biggest-ever corporate fraud and governance failure unearthed at Satyam Computer Services Limited, the concerns about good Corporate Governance have increased phenomenally. The rapidly increasing economic growth that corporate India witnessed the high-profile governance failure scams since the 1990s brought to the forefront the need for Indian companies to adopt corporate governance practices and standards, which are consistent with international principles and standards.

A number of studies in India and abroad have indicated that markets and investors take notice of well managed companies and respond positively to them. The Corporate Governance issue has emerged primarily because of the growing importance of corporations in the national economies and their interaction with the international agencies and institutions. This form of management is also designed to limit risk and eliminate corrosive elements within an organization with haste. Hence, it imperative for a corporation to be fair and transparent to all its stakeholders in all its transactions by adhering to the best corporate governance practices

**Keyword:** corporate governance, ethics, scams and regulations

## I. INTRODUCTION

The Indian economy has continuously shifted from a controlled economy to a market driven economy. In today's ever changing and never-ending business environment, the concept of corporate governance is gaining importance. Further, the EEC, GATT and WTO regulations have contributed to the rising awareness of good governance practices.

Corporate governance is one of the most prominent issues in corporate and financial world today. Legal systems in almost all the major economies of the world are trying to standardize and enforce prudent corporate governance norms. It is observed in Satyam case in India that how the best-known corporate leaders, financial regulators and world-renowned auditors can manipulate the system. This not only destroys the company and its stakeholders' wealth but also hurts the entire economy and reputation of a nation.

## II. REVIEW OF LITERATURE

Good corporate governance is fundamental research area in finance which focuses primarily on the area of corporate governance. Shleifer and Vishny (1997) define corporate governance as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (p.737)". La Porta, Silanes and Shliefer (2000, 2002) [6, 7] view corporate governance as a set of mechanisms through which outside investors (shareholders) protect themselves from inside investors (managers). Garvey and Swan (1994) emphasize that "governance determines how the firm's top decision makers (executives) actually administer such contracts (p. 139)".

Humera Khan attempted to find out the effectiveness of corporate governance mechanism in the companies and institutions. This research focuses on to reduce the principalagent problem with the effective corporate governance mechanism in the organizations. Farinha (2003)[3] conducted the theoretical and empirical literature review to find out the true nature and consequences of corporate governance. The main focus was to find out the reasons for conflict between manager and shareholders in organizations with respect to ownership mechanism. This Research also tried to find out the link between the corporate governance

International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 6 June 2022, pp: 1998-2003 www.ijaem.net ISSN: 2395-5252

and the value of the firm. Further the researcher argued that major problem in organization arises with the relationship of principal and agent relationships and different approaches of manager towards the shareholders. Berle& Means (1932) [1], Jensen &Meckling (1976) [5] concluded the separation of ownership from control is the core of the agency problems facing by the firms. Shamshuddin& Yasmin Begum (2009) [10] argued flourishing economies need a healthy climatic level of mutual trust, reliability and fairness in day-to-day operations.

Cueto (2007) attempted to find out the role of ownership mechanism and corporate governance practices in emerging markets of Latin America. In context of weak shareholder protections, the corporate governance mechanism affects the firm value, the liquidity of market and the organization of industries. Jensen and Meckling (1976) [5] argued that the delegation authority reduces the value maximizing decisions taking by the manager in the firm. McColgan (2001) [8] agreeing with the authors said that agency problem can be reduced with the help of effective corporate governance mechanism which is important in reducing the agency cost and the ownership problems in the firms.

Core (1999) [2] in his study found the firms who have weaker governance to direct and manage company affairs face greater agency problems. Firms therefore, needed for the improved corporate governance in order to survive for long term growth and survival. The research concluded that good corporate governance can occur in the organization by putting the balance between the ownership and control.

Okeahalam and Akinboade (2003) [9] reviewed the issues and challenges of corporate governance in Africa. The research presented the reason for their review that many of the nonfinancial corporations failed in the United States and in Asia due to the non-efficient corporate governance. They concluded that Africa can learn a great from the experiences of these countries and may improve the governance for its corporate sector. The research conducted the review by studying a contribution on the corporate governance in Africa and said that the modern concepts of separation of management from the ownership make the corporate governance an important issue for research.

## III. STATEMENT OF THE PROBLEM

In recent years the corporate scandals, some of which are still unfolding, involve high incidence of unacceptable activities of managers expropriating the resources of a firm at the ultimate cost of stakeholders. It is observed in Satyam case in India that how the best-known corporate leaders, financial regulators and world-renowned auditors can manipulate the system. This is not only destroying the company as well as its stakeholders' wealth but also hurts the entire economy and reputation of a nation. The high-profile corporate governance failure scams like the stock market scam, the UTI scam, Ketan Parikh scam, Satyam scam, which was severely criticized by the shareholders, called for a need to make corporate governance in India transparent as it greatly affects the development of the country. There are so many other corporate like Anil Ambani group, Vijay Mallya led UB group, Global Tele systems Limited, Coal India limited, Adani group, Sahara group, even Indian premier league (IPL) and Common Wealth Games (CWG) who have suffered a lot due to lack of corporate governance norms in their organizations. Having seen this disastrous situation in corporate world, the idea of corporate governance is not only a necessity for good business but also to serve the diverse corporate interests and to bring quality in management. Hence, corporate governance has become a subject of debate, and that it has also become well-established as regulatory and academic shorthand. Hence the researcher decided to undertake a study on the topic entitled "Corporate Governance - Issues, Challenges and Opportunities"

## IV. SIGNIFICANCE OF STUDY

The Corporate governance is a wider concept covers almost all working socio-economic facets of a business. After many corporate failures Indian realised the relevance of it for business especially how it can be a tool to bring in socioeconomic discipline. (Shamshuddin M. Nadaf et al. 2009). Corporate governance is of supreme to a company and is almost as important as its primary business plan. A company without a system of corporate governance is often regarded as a body without a soul or conscience. Good corporate governance inspires, strengthens and maintains investor's confidence by ensuring company's commitment to higher growth and profits. It is considered that the good corporate governance maximizes the shareholders wealth for the long run and has a bearing on the growth and stability of the companies and economy.

Good corporate governance helps to prevent corporate scandals, frauds, and potential civil and criminal liability of the organization. It is also a good business. A good corporate governance image enhances the reputation of the organization.

**International Journal of Advances in Engineering and Management (IJAEM)**
**Volume 4, Issue 6 June 2022, pp: 1998-2003 www.ijaem.net ISSN: 2395-5252**

Corporate governance is intended to increase the accountability of company and to avoid massive disasters before they occur. It can also prevent corporate scandals, fraud and the civil and criminal liability of the corporate and enhances a corporate image in the eyes of general public. It dictates the shared philosophy, practices and culture of an organization and its employees. In turn, it is accountable and responsible to all the stakeholders of the company.

Corporate governance practices regularly keep a company honest and out of trouble. If this shared philosophy breaks down, then corners will be cut, products will be defective and management will grow complacent and corrupt. The end result is a fall that will occur when gravity - in the form of audited financial reports, criminal investigations and federal probes - finally catches up, bankrupting the company overnight. Dishonest and unethical dealings can cause shareholders to flee out of fear, distrust and disgust. Gerardo De Nicolás, Homex, CEOs words are worth mentioning - “Walking the path of true institutionalization and creating value, it requires a powerful level of commitment, internal control and high corporate governance practices are critical tools to get this job done.”

**Objectives of study**

The following are the major objectives of this study

1. To have thorough understanding of the concept of corporate governance.
2. To compare corporate governance practices in Eastern and Western countries.
3. To study the issues and opportunities of corporate governance practices.
4. To analyse the challenges of corporate governance faced by Indian corporate.
5. To suggest recommendations based on findings.

**Research Methodology**

The article is theoretical and descriptive in nature. The work has been carried out on secondary data. Research articles, Journals, Magazines, Government Reports, etc. are the major source for this article.

**Corporate Governance: Opportunities**

A Board of Directors is expected to play a key role in corporate governance. The board has responsibility for CEO selection and succession; providing feedback to management on the organization's strategy; compensating senior executives; monitoring financial health, performance and risk; and ensuring accountability of the organization to its investors and authorities. Boards typically have several committees (e.g., Compensation, Nominating and Audit) to perform their work. A study (2013) found that most Iranian companies "are not in an appropriate situation regarding accounting standards" and that managers in most companies conceal their real performance, implying little transparency and trustworthiness regarding operational information published by them. In Global Investor Opinion Survey (2002) McKinsey found that 80% of the respondents would pay a premium for well governed companies. A report on examination of 110 company’s performance found that companies with better corporate governance had better performance. Al-Hussain, A. and Johnson, R. (2009) found a strong relationship between the efficiency of corporate governance structure and Saudi bank performance when using return on assets as a performance measure with one exception - that government and local ownership groups were not significant. However, using stock return as a performance measure revealed a weak positive relationship between the efficiency of corporate governance structure and bank performance. The degree of leadership that the board has over the organization varies; in practice at large organizations, the executive management, principally the CEO, drives major initiatives with the oversight and approval of the board. John G. Smale, former Chairman of the Board, General Motors wrote (1995) "The board is responsible for the successful perpetuation of the corporation. That responsibility cannot be relegated to management." What benefits or value addition, the corporates are likely to achieve through sound and effective corporate governance practices? The answer, as provided by ICSI is summarised as follows:

1. Adoption of good governance practices stability and growth to the enterprise.
2. Good governance system, demonstrated by adoption of good corporate governance practices, builds confidence amongst stakeholders as well as prospective stakeholders.
3. Investors are willing to pay higher price to the corporate demonstrating strict adherence to internationally accepted norms of corporate governance.
4. Effective governance reduces perceived risks, consequently reduces cost of capital; it also enables board of directors to take quick and better decisions which ultimately improves bottom line of the corporate.
5. In today’s knowledge driven economy, demonstrating excellence in skills has become the ultimate tool in the hands of board of directors to leverage competitive advantage.

International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 6 June 2022, pp: 1998-2003 www.ijaem.net ISSN: 2395-5252

6. Adoption of good corporate governance practices provides long-term sustenance and strengthens stakeholders' relationship.
7. A good corporate citizen becomes an icon and enjoys a position of respect. 8. Potential stakeholders aspire to enter into relationships with enterprises whose governance credentials are exemplary.

**Corporate Governance: Challenges**

Corporate governance is a complex concept comprising a number of dimensions including finance, Risk management Economics, Ethics and law. Since, corporate governance is based upon various disciplines; it must be able to deal the problems arising in any of its dimension. Indian organisation became aware about corporate governance around the year 1883. During this time, Indian corporate environment also witnessed various scandals. The lack of Trust ship, Transparency and Disclosure, Empowerment and Accountability, and Control led to ultimate corruption in the management and mismanagement in the affairs of many companies. There are many conceptual challenges before the organisations concerning corporate governance. Among them there are few which are of paramount importance and have tremendous influence in the governing process of the organisation.

1. Differentiating the Roles of Board and Management.
2. Deciding the Board composition
3. Separating the Role of CEO and Chairperson
4. Re-electing the Board of Directors
5. Directors and Executives' Remuneration
6. Protecting Shareholders Rights
7. Social Responsibility of the organisation

Whatever the systems of corporate governance adopted, one thing is common that the board of directors have been recognised as the heart of the systems of corporate governance and the board practices have been accepted as the most important practices of governance. It has also been recognised that along with the Board of directors, the other participants and stakeholders do have significant roles in the governance systems and their commitment in the process of corporate governance.

**Findings of the Study**

The following are the major findings of this study.
1. The principles of corporate governance are not unknown to the Indian traditions.
2. Corporate governance principles and codes are not same in all the countries of the world.
3. Corporate governance is one of the most prominent issues in corporate and, financial field today all over the world.
4. A company without a system of corporate governance isoften regarded as a body without a soul or conscience.
5. A good corporate governance image enhances the reputation of the organization.
6. Satyam Computer Services Limited India's biggest-ever corporate fraud and governance failure unearthed at the concerns about good Corporate Governance have increased phenomenally.
7. The high-profile corporate governance failure scams accelerated the active role of Legal systems, in almost all the major economies of the world, and are trying to standardize and enforce prudent corporate governance systems and norms.
8. The idea of corporate governance is not only a necessity for good business but also to serve the diverse corporate interests and to bring quality in management which maximizes the shareholders wealth for the long run and has a bearing on the growth and stability of the companies and economy.
9. Corporate governance principles and codes have been developed in different countries basically were issued from stock exchanges, corporations, institutional investors, or associations, institutes of directors and managers with the support of governments and international organizations
10. Poor and lack of corporate governance norms in the organizations can lead to profit loss, corruption and a tarnished image also hurts the entire economy and reputation of a nation.
11. Dishonest and unethical dealings can cause shareholders to flee out of fear, distrust and disgust. Therefore, corporate must adhere and follow Honesty is the best policy in every activity.
12. Good corporate governance can prevent corporate scandals, fraud and the civil and criminal liability of the corporate and it enhances a corporate image in the eyes of general public. The key elements of corporate governance are honesty, trust and integrity, openness, responsibility, and accountability.

**Suggestions of the Study**

Good rules are like good fences – they make well-ordered communities. When your rules are well-defined, clear, fair, and most of all followed through on, you will have an orderly corporation. At this point, the below mentioned suggestions of the OECD (2004) are more relevant.
1. Board members should be informed and act ethically and in good faith, with due diligence and

care, in the best interest of the company and the shareholders.
2. Review and guide corporate strategy, objective setting, major plans of action, risk policy, capital plans, and annual budgets.
3. Oversee major acquisitions and divestitures.
4. Select, compensate, monitor and replace key executives and oversee succession planning.
5. Align key executive and board remuneration or pay package with the longer-term interests of the company and its shareholders.
6. Ensure a formal and transparent board member nomination and election process.
7. Ensure the integrity of the corporations accounting and financial reporting systems, including their independent audit.
8. Ensure appropriate systems of internal control are established.
9. Oversee the process of disclosure and communications.
10. Where committees of the board are established, their mandate, composition and working procedures should be well-defined and disclosed. Most of the above principles have been incorporated into laws and regulations governing companies and securities trading, or have been expressed in the listing rules of stock exchanges. Majority of principles are now included in codes of best practices developed over the years, and may or may not be mandatory.

Governance of corporations continues to move in a more shareholder - centric direction. Although the issues will vary across corporations, the main focus should be on:
1. The long-standing debate about the purpose of the corporation and governance roles, corporate performance and strategic direction.
2. CEO selection, compensation and succession, tensions between achieving short-term returns and making long-term investment.
3. Shareholder activism and shareholder engagement, the impact of shareholder activism on board decisions.
4. Shareholder litigation and the reactive use of corporate by-laws to protect boards.
5. Concerns about proxy advisor power and influence.
6. Internal controls, risk oversight and compliance, drawing the line between board oversight and management.
7. Crisis preparedness, rebuilding society's trust in the corporation.

In order to manage this level of accountability, a corporation focuses on having good rules, relationships, systems and processes. With well-defined rules, relationships, a company can easily govern its operations to reach an ideal end product. Systems and processes break down if the rules and relationships aren't well-defined or focused. Therefore, primarily, corporate who promote good corporate governance are interested in maintaining accountability. With accountability, orderliness, and adherence to rules, one can turn corporation into an efficient and orderly system. For this reason, many new methods of corporate governance are promoting single-person responsibility, more open auditing, and a division between the roles of CEO and Chairman of the Board. It is said 'If you want to practice good corporate governance, create your framework and then live within it.'

**Corporate Governance: A Road Ahead**

The modern corporate model is based on a system of honesty, trust and integrity, openness, responsibility, and accountability, confidence and operates on the assumption that shareholders entrust directors to deploy company's assets for its long-term sustainability and shareholders' value. The issues of disclosure, transparency, group accounting, role of directors and degree of accountability to the shareholders, lenders and overall public good require a fresh and closer look. The essence of corporate governance lies in promoting and maintaining integrity, transparency and accountability in the higher echelons of management. It is not only a prerequisite for facing intense competition for sustainable growth in the emerging global market scenario but is also an embodiment of the parameters of fairness, accountability, disclosures and transparency to maximise value for stakeholders. Good governance is the means to that end. The objectives before a business are to create wealth for the society, maintain and preserve that wealth efficiently and to share the wealth with the stakeholders. Corporate governance is the method by which the aforesaid objectives are achieved. Dr. Richard Leblanc (2015) rightly said "How a company is governed influences rights and relationships among organizational stakeholders, and ultimately how an organization is managed, and whether it succeeds or fails. Companies do not fail: boards do''

## REFERENCES

[1]. Berle AA, Means GC. The Modern Corporation and Private Property , Macmillan, NY, 1932
[2]. Core JE, Holthausen RW, Larcker DF. Corporate governance, chief executive officer compensation, and firm performance,

International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 6 June 2022, pp: 1998-2003 www.ijaem.net ISSN: 2395-5252

Journal of Financial Economics. 1999; 51(3):371 -406.
[3]. Farinha J. Corporate Governance: A Survey of the Literature , JEL Classification: G300, 2003.
[4]. Humera Khan . A Literature Review of Corporate Governance 2011 International Conference on E - business, Management and Economics, IPEDR.IACSIT Press, Singapore. 2011, 25.
[5]. Jensen MC , Meckling WH. Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure", Journal of Financial Economics.1976; 3(4):305-360.
[6]. La Porta R, Lopez -De -Silanes F , Shleifer A. Investor protection and corporate governance, Journal of Financial Economics. 2000; 58 ( 1 - 2): 3 -27.
[7]. La Porta R, Lopez -De -Silanes F, Shleifer A , Vishny RW . Investor Protection and Corporate Valuation. The Journal of Finance. 2002; 57( 3):1147 -1170.
[8]. McColgan P. Agency theory and corporate governance: a review of the literature from a UK perspective, Department of Accounting & Finance, University of Strathclyde,Glasgow, 2001 .
[9]. Okeahalam C, Akinboade O A. A Review of Corporate Governance in Africa: Literature, Issues and Challenges, Global Corporate Governance Forum, 2003 .
[10]. Shamshuddin M. Nadaf, et al. Role of Corporate Governance and Internal control in managing Risks, Conference Proceedings of National Conferences on Shaping the future...Leadership Challenges and Business Strategies in Emerging Markets, 2009.
[11]. Shamshuddin M. Nadaf Yasmin Begum R. Nadaf, et al. Business Ethics: Issues, challenges and strategies, United Publishers, Mangalore, 2013 .
[12]. Subhas Chandra Das, Corporate Governance Codes. Systems, Standards and Practices, PHI Learning Private Limited New Delhi, 2009.
[13]. Sumeet Khurana, Corporate Governance, Dreamtech press, New Delhi, 2011