IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES
ISSN PRINT 2319 1775 Online 2320 7876
 UGC CARE Listed (Group -I) Journal Volume 11, Iss 03, 2022

CORPORATE GOVERNANCE- THE NEW PARADIGM

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ABSTRACT

Corporate governance has emerged as a cornerstone of organizational success and sustainability in an era of rapid economic ,technological and regulatory transformation.This paradigm shift emphasizes transparency, accountability and ethical decision making as organization navigate increasingly complex stakeholder expectations .The evolving landscape demands a redefinition of governance framework to address issues such as digital transformation , environmental sustainability and social responsibility. This paper explores the drivers of changes in corporate governance ,examines emerging trends and highlights the importance of adaptability in fostering long term growth and stakeholders trust .By implementation a forward thinking governance model, businesses can thrive in a dynamic global environment.

Keywords: Corporate governance, Corporate social responsibility, Ethics, Globalization Privatization,, Business ethics, Transparency, Scams.

INTRODUCTION-

Corporate governance is related with ethical conduct of business. Ethics is about right and wrong and guides in making decisions that align with moral values. Corporate governance has become an essential component of organizational success in today's changing and interconnected world. The success of a company depends on strategic thinking of its managers. A company is a social entity and carries social responsibility holding itself accountable for its work toward shareholders, suppliers consumers, employees and society. . It compasses the structures, processes and principles that guide how companies are directed controlled and held accountable towards diverse stakeholders, including shareholders, employees, customers and society at large. The global landscape, shaped by technological advancements has altered the regulatory environment with a growing emphasis on environmental ,social, and governance (ESG) factors. The current scenario highly demands a paradigm shift in corporate governance, emphasizing the prioritization of transparency, accountability and sustainability. As businesses operate in an interconnected world, stakeholders expect organizations to uphold higher standards of ethical conduct and take decisions for welfare for all. Corporate governance practices refers to set of structures, practices and processes that ensures accountability, transparency and ethical conduct in management of an organization. This paper delves into the key drivers of change, explores the emerging trends in corporate governance structures become imperative.

THE NEED OF CORPORATE GOVERNANCE

Corporate governance is meant for maintaining trust ,ensuring transparency and fostering accountability in modern organizations. As the businesses operate in complex environment and the effective governance provides a framework to balance the interests of diverse stakeholders. The current economic environment plays a key role in shaping of corporate governance. Liberation and globalization also played an important role to boost corporate governance in India. Before 1991, companies experiences many fraud and employee fraud is most common type of fraud faced by organizations. Corporate governance is the need of today to prevent fraud and enhance transparency.

PRE-1991 ERA

The Indian Economy was a centrally planned system, characterized by government ownership and control over all major sectors, while privately owned were heavily regulated by state. In the 1991 era ,ownership of many companies was concentrated within few families . These companies did not invite public for capital and decisions were taken by family members and issue of transparency and disclosures of decision making process was not as prominently emphasized .

POST- 1991 ERA

The Chakraborty Committee and Narsimha committee reviewed the functioning of India's capital markets and recommend major financial sector reforms.. Both suggested reducing direct government control over capital markets and replacing it with a transparent , market driven framework.The Chakraborty Committee emphasized investor protection and market efficiency, while .Narismha Committee led to creation of the SEBI in 1992., promoting transparency and self-regulation in capital markets. The Naresh Chandra Committee Report (2002) on corporate governance recommended to improve corporate practices in India ,ensuring boards have a majority of independent directors, have a audit committees ,enhancing disclosure and transparency and protecting minority shareholder's rights. Many of its suggestions were later incorporated into SEBI's listing obligations and disclosure requirements regulations, which improve corporate governance standards and align them with global practices. Progress can not be achieved without transparency . The businessman should take decision that prioritize the welfare of society as a whole, while maintaining their own integrity.

DIMENSIONS OF TRANSPARENCY

- **Financial Transparency**-Accurate and timely disclosure of financial performance
- **Operational transparency**- Sharing information about the processes,decision making and performance to build trust and minimize ambiguity
- **Regulatory transparency**-Companies should ensure that all actions should be according to established laws.
- **Social Transparency**- Demonstrate commitment to CSR and sustainability and environmental,social and governance goals.
- **Technologically Transparency**-Ethical use of technology,data privacy and secure systems that maintain user trust.

LITERATURE REVIEW

(Gill, 2008) evaluated that corporate goverance is about ethics, accountability, transparancy and disclosure. Corporate social responsibility emphasizes corporate goverance as a route to integrate social and environment considerations into business practices and evolving trends. This study done in three demension like first disscuss the recent transformation in the regulation of corporate goverance and Corporate social responsibility. Second transformation as a convergence like new govrance and third prospect and challenges of this convergance by a series of conceptual and methodological inquriries. **(Jitender Kumar & Kumar, 2013):** explained that corporate goverance is a good deal of public interest by making transparancy, good conduct and full disclousre. Because of the lack of the proper regulations many scandals come into the economy. Most of the countries have proper system for preventing such type of scam. This paper reveal necessory requirements of corporate goverance for stakeholder point of veiw. It also studied the legal framework and its connection to different stakeholders. **(Agarwal & Medury, 2013):** explored about the good governance. This paper identified the gaps due to which it faces difficulties even in best managed firm. The major reason for this has been ineffective and unethical role of professionals. So the need arise for good governance. **(Aggarwal, 2013):** throw a light to analysis the relationship between corporate goverance and corporate profitability in Indian context. For this a sample of 50 Indian companies listed on S & P CNX Nifty 50 Index was taken. Three years data from FY 2010-2011 to FY 2012-2013 has taken. Many statistical tools has been used. The result show that goverance rating has a positive but insignificance impact on corporate profitability of the firm. **(S.B, Sailaja, & Begum, 2014):** examined that there are many frauds in the organization making by the employee, financial frauds, medical insurance fraud etc. organization want to prevent such type of all frauds. So company making audit of accounts and follow all the regulations. The paper presents an exploratory study that examines different type of frauds and characteristics of these corporate frauds, the people responsible for them and the role of regulatory bodies in preventing such frauds.

OBJECTIVES OF THE STUDY

1. To study the concept of corporate governance

2. To evaluate the impact of poor corporate governance

3. To study the adoption of corporate governance practices in Indian companies

4. To highlight the benefits of strong corporate governance

METHODOLOGY

The study used secondary data to analyze and review the current status of corporate governance practices in India and collected from published articles, journals ,and various other websites.

ISSN PRINT 2319 1775 Online 2320 7876
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RESULTS OF LACK OF TRANSPARENCY AND ACCOUNTABILITY

The liberalization of India, initiated in 1991, marked a significant turning point for the Indian market and opened the world market to the Indian Enterprises but also increased the domestic competition with the entry of the multinational companies. Corporate Governance is crucial in India due to financial scams and changes in accounting practices since liberalization from 1991. For example, ITI scam, Ketan Mehta scam and latest and biggest of them all Satyam scam.

SCANDAL IN SATYAM

The Satyam scam (Enron scandal) was a enormous corporate fraud that came to light in 2009.The scam was master mind by the company's chairman ,'Ramalinga Raju' who inflated the financial record of company by over $1.47 billion (around 7000) crore INR.The scandal was exposed and this led to sharp drop in stock prices of company and investor losses the confidence in Indian Corporate Sector.

HARSHAD MEHTA SCAM

The Harshad Mehta Scam, also known as securities scam (1992) , was major fraud in India orchestrated by stockbroker 'Harshad Mehta' manipulated the stock market by exploiting banking system loopholes ,causing loss of billions of rupees and a major collapse in investor confidence. The scam remains one of the most significant scam in Indian history and shaping the way of Indian stock market and financial institutions regulated today..

KETAN PAREKH SCAM

Ketan Parekh, a prominent stockbroker in India, and involved in manipulating stock prices in during toward the end of the 1990s and the beginning of 2000s ,.known as K-10 scam.The estimated financial loss due to the ketan Parekh scam was around 1000 crore rupees.Parekh's manipulation contributed to the market crash of 2001, leading to widespread financial damage for investors ,banks and market contributors.

UTI SCAM

The UTI scam was a major financial fraud occurred in India in early 2000s involving the 'Unit Trust of India' ,one prime mutual fund institutions at the time. The scam revolved around the mismanagement of fund ,fraudulent practices and misreporting of the value of certain assets leading to major losses for investors and major crisis in financial markets.

To combat the serious concerns like scams and financial crises, corporate governance should ensure the transparency and accountability through clear policies and strong internal control. There is need to strengthen the company law for improving corporate governance. It seems that scam of Satyam could have never been detected if B.Linga Raju never confessed the wrong doing. It is fear that there are many more.'A satyam' lurking within India and all of those are flourishing and sticky wicket of corporate governance. So, corporate governance is strongly needed for reducing such time of scam. Establishment of SEBI in 1992 in India was first positive step to develop concept of corporate governance.

STEPS FOR ESTABLISHMENT OF CORPORATE GOVERNANCE ARE

Corporate governance is regulated through various laws and regulations designed to ensure transparency, accountability and ethical behavior within organizations. Below are the some key laws and regulations related to corporate governance:

'Companies Act 2013'

Companies act is the primary legislation for corporate governance in India. It outlines the responsibilities of company directors, the composition of board and rights and protections of shareholders.

SEBI

SEBI regulates the securities market in India. SEBI corporate governance guidelines(1999) defines the board's role in promoting transparency, accountability and ethical conduct.

'The Sarbanes-Oxley Act, 2002(USA)'

The act was enacted in the United States to follow major corporate scandals like Enron and WorldCom

'UK Corporate Governance Code(2018)'

The UK corporate governance code outlines standards of good practice regarding board leadership. effective remuneration, accountability and relationships with stakeholders.

The OECD Principles Of Corporate Governance(1999)

It proposes a list of key principles designed to promote corporate governance framework worldwide.

International Financial Reporting Standards

This is not a law but this provides global standards for financial reporting and transparency.

Company Law

Company laws, such as competition act 2002(India) and Sherman Act (USA) prevent anti-competitive behaviors such as monopolies, price and market manipulation. These laws ensure that companies engage in fair competition, which is an essential aspect of good governance.

COMPANIESFOLLOW CORPORATE GOVERNANCE PRACTICES:

Microsoft Corporation(USA)

Microsoft has consistently demonstrated strong corporate governance through a diverse and independent board of directors, transparent reporting and ethical practices . They have a well established CSR program and prioritize ESG goal in strategy.

Unilever(UK/Netherlands)

Unilever is recognized for the strong practices, focusing on sustainability, corporate ethics and the protection of shareholder interests. The company believes in long term value creation and have earned it a reputation for corporate governance excellence.

Tata Group(India)

The Tata Group is widely regarded for its commitment to corporate governance. Tata companies follow high standards of transparency, ethical business conduct and corporate social responsibility.

Procter &Gamble (P&G) USA)

The company corporate governance practices emphasize transparency and accountability. The company has a strong independent audit committee, engages regularly with shareholders and is committed to ethical business conduct. They also focus on sustainable development and long term shareholder value.

Infosys (India)

Infosys has a strong commitment to corporate governance, demonstrated through its independent board of directors, ethical business conduct and financial transparency. The company also focuses heavily on employee welfare and sustainability.

These companies are recognized for their commitment to implementing strong corporate governance practices. They set examples for other companies to follow by prioritizing transparency, ethical decision making, shareholder engagement and sustainability. Adopting strong corporate governance practices provides numerous benefits to companies. These benefits contribute to the corporate longevity, profitability and reputation. Some of the key advantages:

IMPROVED FINANCIAL PERFORMANCE

Companies with effective governance practices often perform better than with poor governance. According to a study by 'Mckinsey&company',companies with strong governance practices experienced a 8%-12% higher returns compared to those with weaker governance practices over a five year period.

Enhance reputation and brand value:

Good corporate governance leads to positive image. Transparent and ethical practices enhance the company's reputation, making it attractive to investors, customers and stakeholders.

Access to capital

Investors are more likely to fund companies with strong corporate governance because they feel more secure in their investments.

Risk Management

By adopting clear processes in place for internal controls, audits and compliance, companies can avoid costly mistakes and mitigate potential liabilities.

There are many more benefits of implementing corporate governance. Moreover, it creates a conductive environment for strategic decision making , effective crisis management and operational resilience. Good corporate governance can be said as investment that pay off in terms of both financial and non financial benefits , positioning a company for enduring success in an increasingly complex business world. CRISIL corporate governance score rated over 350 Indian Companies on their corporate governance practices in 2023.According to NSE India, 70% of listed companies in India now disclose Environmental , social and governance(ESG) factors in the annual reports or standalone ESG reports, an increase from 45% in 2017.The BSE 100 Index companies with high governance scores showed an average stock return of 12-15% over three years, compared to 5-8% for companies with lower governance scores. In 2022, Indian companies spent approximately 15000 crore rupees on

CSR activities, focusing on education , healthcare and environmental sustainability.. So it can be stated that government governance in India has significantly improved over past decades, driven by regulatory reforms and growing focus on sustainability and ESG factors. While challenges remain, the corporate governance practices helping companies attract investors, improve performance and contribute to societal well-being.

CONCLUSION AND SUGGESTION

In the present day context in India, strong corporate governance is a vital foundation for the success, sustainability and growth of modern businesses .It ensures transparency, accountability ethical management, which are essential for gaining the trust of stakeholders, investors, employees and customers. MCA has provided clear progressive course of better governance but main responsibilities lies on shoulders of human capital. So, it is now necessary to step away from traditional approach and focus in establishing in that system, delivering important qualities-transparency and accountability. There are several issues involved in to the execution of the corporate governance, but these can be sorted by implementing some of successful models of corporate governance. The Indian corporate sector ,through reforms like the Companies Act 2013 and SEBI's LODR guidelines has witnessed significant improvements in governance practices. So corporate governance is essential for fostering trust, mitigating risk, and ensuring long-term success in a dynamic business environment.

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ISSN PRINT 2319 1775 Online 2320 7876
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