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Impact of Corporate Governance Policies of India on Industrial Management in India: A Review of MNC'S in India

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Abstract

Corporate Governance serves as a major area in the growth and development of businesses in a country. With proper laws of corporate governance in place, any chance of issues pertaining to business functions can be solved. India has a robust set of corporate governance rules and regulations, which can be termed as one of the most important aspects of the corporate structure of the country. A visit into the various norms associated with the same and its impacts on the MNCs operating in the country has been undertaken here. It clearly highlights the business environment of India and shows its advantages and flaws.

Keywords

Corporate Governance, Governance Policies, Industrial Management, MNC, Securities Contracts (Regulation) Act, 1956.

INTRODUCTION

Corporate governance is a procedure or a set of principles and systems that assures an organisation to manage and become suitable for the best interests of the stakeholders. With the help of this system, the organisations are controlled and directed. Proper corporate governance encourages transparency and disclosure over business transactions, protection of the stakeholder's interests, corporate fairness, accountability, integrity, transparency, conformities over legal and statutory frameworks and dedication towards the stakeholder's values. However, in this article, we will be focussing over the impact of corporate governance policies of India in terms of industrial management focussing over the MNC's of India.

Legal framework for the corporate governance of Indian MNCs

The fundamental framework for maintaining the regulations of all the MNC's in India is constituted within the ***Companies Act, 1956***, that supplies the balances and the checks within the potentialities of the board of directors. Additionally, as per the norms and the regulations of the ***Securities Contracts (Regulation) Act, 1956***; every registered organisation in India must consent to the listing agreements specified by SEBI (Securities and Exchange Board of India) (Sar, 2018). **Clause 49** acted as the cornerstone of India for several years. Although this type of regulation are anticipated to maintain the momentum with the rapidly changing situations of the corporate, the previous detailed review for clause 49 came back in 2004 and the revised norms became effective from January, 2006 (Goel, 2018). From that time onwards, the central government through the Ministry of Corporate Affairs Voluntary Guidelines of 2009 and considerable insinuations has launched majority of the proposals and the changes over the corporate governance issues for ***Companies Bill, 2012***, which is an anticipating ratification.[10]

MNC's are observed as the strongest type of organisation all round the globe as they comprise a huge share of intellectual property rights (IPR's), whereas the big employers contribute themselves for the economic development of the foreign nations. Apparently, as per the depiction of Pahi & Yadav (2019), the institutional environment pressurises of the host nation pressurises the peripherals of the MNC's externally to determine the things that are more important, such as the internal pressure that encourages it to become legal over the external pressures or the working environment of the MNC's to achieve external legalities over the host nation's legal environment. Contrarily, the domestic organisations must also conform to the requirements of the expectations of the stakeholders, local regulations and rules.[7]

However, despite the huge growth, corporate governance has been observed to be quite feeble in China and concentrated over the state ownership levels. As per the suggestion of Saggar & Singh (2017), deficiency of independence within the immature capital markets, incorrect financial disclosures, insider trading and boards captures a greater amount of FDI (Foreign Direct Investment) in comparison to the gained higher-ranking corporate governance of India. This resulted in a situation, wherein the investors congregated over the organisation for the gained returns and corporate governance just seems to be a hygiene factor. Moreover, the rule for the formal system and law of property rights have not been considered as the most vital aspect for the determination of the inflows of FDI over the Chinese regions, increasing the issues to the main differences.[9]

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Corporate governance over the private equity sectors

The economy of India has depicted a consistent and gradual relocation from the manufacturing segment to the service segment. As per the suggestion of Arora & Bodhanwala (2018), private equity or venture capital has been observed as an industry that exhibits a distinguished mode for the financial organisations constituted over the service sector. The previous year's exhibited some of the current colossus of information technology to transform the sector for marshalling the initial capital. Currently, as per the opinion of Vig & Datta (2018), in India, the sudden stream for the local e-commerce sites can be accredited over the investors of private equity. Organisations owned by the service sector highly relies over the venture capital's players to marshal funds as opposed to choosing the loans from the banks and raising funds from the preliminary public offerings that are mainly preferred by the organisations of the manufacturing sectors. However, as per the depiction of Kapoor & Goel (2017), the corporate governance affects over the functioning and the development of the capital markets and deploys a powerful influence over the allocation of resources. Moreover, the investors for private equity also hold upon the labour laws and any other conformity as shown by the ***Companies Act, 1956.***[1][3][11]

From the previous research, it has also been found that the investors for private equity interacted with the organisations to abandon the investments officially within various organisations after it was found that the interventions over the company's part were backed by specific requirements of the stamped taxation. Moreover, such differences mainly emerge from the up-graded country's operations occurring from such types of private equity organisations.

However, the private equity firms not only incentivises portfolio management of several MNC's to assure high standards for maintaining corporate governance, but also detains and clasps into significant equity positions that are represented strongly over the board of directors. As per the analysis of Kapoor & Goel (2017), the partnership for private equity also inscribes the lack of information symmetry via exercise development in evaluating and retrieving potential investments. For example, the partnership for private equity might establish capability via cost cutting and operations experience. However, the developing countries, such as India usually exhibit low standards of corporate governance that slowly tends to emerge aligning with the development trends of the country.[3]

Laws and policies required for maintaining corporate governance within the Indian industries

The policies and laws required for maintaining corporate governance over the Indian MNCs are the ***Companies Act, 2013***; **LODR** (Listing Obligations and Disclosure Requirements) **regulations, 2015; Bankruptcy Code, 2016; ESG,** SEBI regulations and many others. The ***Companies Act, 2013*** placed the benchmark for delineating an enormous amount of voluntary suggestions, aligning with the laws in spirit and true letter while sticking to the ethical standards of the organisation in bringing out effective management solutions for discharging the responsibilities of the smooth functional operations of the organisation. Administrative standards are also set by the corporate level organisations of India in response to the financial services assistance program established by the International Monetary Fund and World Bank, known as SEBI. However, the main motive of the organisation is to lower down various kinds of malpractices, such as the lack of transparency and charging prices in trading operations to the clients. This was mainly developed by the Indian government to form a securities market and a powerful financial atmosphere with the promotion of the current standards for corporate governance.

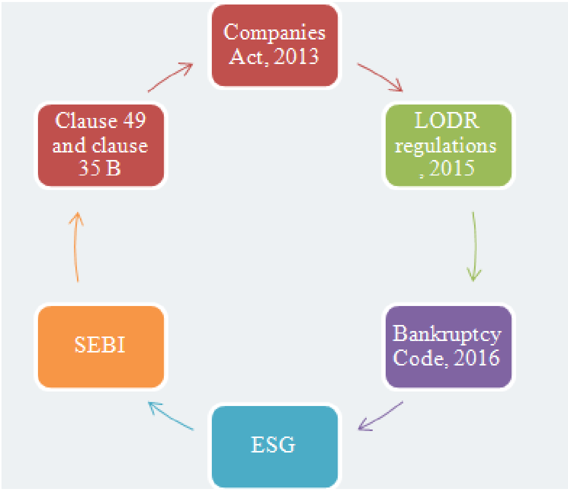

Figure 1: Policies for maintaining corporate governance within the Indian sectors (Source: Influenced by Saggar & Singh, 2017)

However, the current amendments of **clause 49** and **clause 35 B** for registering the agreements will make governance more rigorous and effective for safeguarding the stakeholder's interests. On the other hand, the **LODR regulations of 2015** puts down specific additional responsibilities of the board based on chapter II for assessing the effectiveness of the governance practices and making changes as per requirement. The SEBI board for encouraging fair disclosures and transparency for all the listed units of India administered this regulation. Moreover, as per the suggestion of Saggar & Singh (2017), the ***bankruptcy Code, 2016*** seeked for the preservation of the ***Money Laundering Act, 2002*** to drive the practices of corporate governance within several industries. Contrarily, the international focus is maintained mainly over the **ESG** (Environmental, Social and Governance) aspects, constituting the pandemic situation resulting in the ESG agenda to be a focus area for the Indian Boards.[9]

Thus, the corporate governance inculcates the ethical standards of the organisation and establishes a room for open dialogue through the implementation of fair play and transparency in maintaining the strategic operations of corporate management. Its significance lies in managing accountability for the shareholders, maintaining integrity and transparency in fundamental operations of the organisation, unlocking or unbolting the dialogues within the stakeholders and the management and sticking to the organisation's rules in terms of the spirit and law.

METHODOLOGY

The research article followed **secondary methods**. The article followed **positivism philosophy**, **deductive approach, descriptive design, and secondary data collection methods**. Positivism philosophy mainly relies on empirical investigation and setting out a hypothesis for deeply analysing and assessing in measuring the outcomes for codifying it according to a set of predictions and laws (Lee & Saunders, 2017). On the other hand, the deductive research approach offers advantages in terms of determining causal relationships among variables and concepts, calculating the concepts quantitatively and conjecturing the findings of a research to a specific extent. Moreover, the **descriptive research designs** are cheaper, easier and quicker to conduct (Kumar, 2018). On the other hand, the **secondary data collection** methods are **time saving**, **low cost** or free of cost and can be **accessed easily**.[4][5]

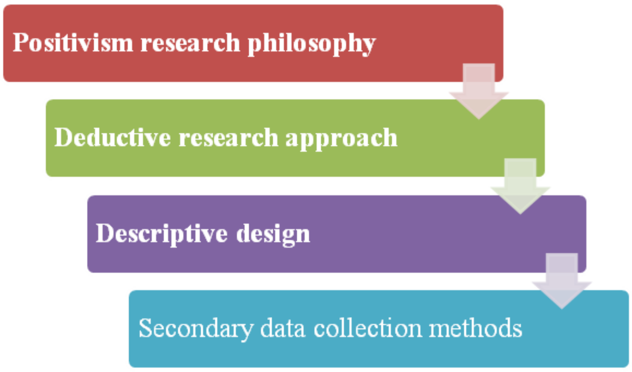

Figure 2: Methodologies for the research [5]

RESULTS

The previous researches have revealed the fact that the MNC sub divisions have an increased level of disclosure and corporate governance in comparison to the local organisations. As per the depiction of Michiels & Molly (2017), the private equity financed organisations exhibited an increased standard of corporate governance in comparison to the organisations not receiving such type of funding. However, the dissimilarities mainly emerge through the application of the standards of the developed nation's corporate governance occurring from the investors possessing the private equity organisations. Corporate governance assists in maintaining economic growth, corporate progress, confidence of the investors, increase of capital efficiency, encouraging a huge amount of savings, stimulation of the managers and owners, brand development of the organisation, mitigation of waste, corruption and risk to ensure proper management.[6]

However, the main policies that are required for maintaining governance within the Indian organisational sectors are the Companies Act, 2013; Bankruptcy Code, 2016, ESG and LODR of 2015, clause 35B and clause 49. Thus, as per the suggestion of Palaniappan (2017), all these policies assisted in maintaining corporate governance within India. Thus, corporate governance represents the foundations for an organisation's behaviour, accompanied by the corporate strategies, service or product innovation and resource utilisation.[8]

CONCLUSION

Corporate governance associates the manner in which an organisation works. The implementation of practices, procedures, laws and rules of the organisation determines the manner in which it works internally. However, as far as the regulatory and the structural transformations are concerned, India has faced various ratifications, such as the regulations for the disclosure requirements and the commitment for SEBI's listing that have significantly contributed in fortifying the standards of the government and increasing accountability through disclosures. Moreover, the Companies Act, 1956; Securities Contracts (Regulation) Act, 1956; Companies Bill, 2012; Clause 49; Clause 35 B, Bankruptcy Code, 2016; LOCR, ESG, SEBI are the policies required for the maintenance of corporate governance within the Indian sectors. These transformations have also been motivated and stimulated by the Anglo Saxon model for corporate governance, which is notably one of the main reasons behind corporate governance practices for not attaining the desired fruition level. Moreover, it is also essential that the administrative measures must be carved and furrowed depending on the business environmental practices of the Indian MNC's.

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