



## The weaknesses of corporate governance systems in India

Global investors are watching the lacunae in our current corporate governance structure and, more importantly, if we are serious about fixing them.

### Recent corporate governance lapses:

1. Recently, India Inc. was rocked by the Ashneer Grover-BharatPe controversy and the revelations around the National Stock Exchange (NSE)-Chitra Ramkrishna-Himalayan yogi saga.
2. Former ICICI Bank CEO Chanda Kochhar's fall from grace following allegations of quid pro quo in a loan case is another key lesson in weak corporate governance.
3. Other recent governance lapses resulted in the IL&FS collapse, the Yes Bank crisis and the DHFL scandal. In all these cases, the shareholders' interest seemed to be the least priority. Each of these crises laid bare India's weak corporate governance system.

### Problems:

1. Many issues plague corporate governance in India. First is the lack of accountability of controlling shareholders or promoters who pursue policies and practices in their own interest at the expense of minority shareholders. Many appoint friendly independent directors, ensuring them a free run.
2. Next is the lack of transparency and inadequate disclosure requirements. This is compounded by the weak enforcement of regulations by the Securities and Exchange Board of India (SEBI), the country's market regulator. As a result, cases of management lapse may take years to resolve and end with warnings or mild punishments.
3. Just last week, SEBI backtracked on a rule requiring the separation of the roles of the chairperson and MD/CEO for India's top 500 companies that were to come into effect on April 1– a recommendation made by the Uday Kotak committee on corporate governance in 2017.
4. The fact that markets in India do not punish poorly managed companies adequately for their misdeeds adds to problem.



5. Analysts and investors have serious concerns about weak corporate governance ranging from opacity, lack of diversity and related party transactions, to the concentration of powers and authority in promoters.

## Weaknesses of the Indian System of CG

- Lack of Whistle Blower policy
- Unlisted Investment Companies
- Accounting Gimmicks
- Poor shareholder participation
- Obliging auditors
- Other Problems: A soft state, lethargic and slow moving judicial system, a value system that is indifferent to moral turpitudes, an inefficient market regulator and poor enforcement of rules and regulations have all combined to ensure that though the ideal of corporate governance is kept at high pedestal, it is but occasionally put into practice

### Way Forward:

1. India must seriously penalize auditors and boards of companies for overlooking management follies.
2. A combination of disclosure, regulation, enforcement and investor activism can improve corporate governance.
3. Implement the Uday Kotak committee recommendations on corporate governance.

### Need for better corporate governance:

1. Trust, transparency and accountability are hallmarks of strong corporate governance that can help build investor confidence and earn their trust.

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2. What we need to remember is that global investors are watching the lacunae in our current corporate governance structure and, more importantly, if we are serious about fixing them.
3. At a time when India is rapidly emerging as the start-up capital of the world, it's critical to fix the inadequacies in our corporate governance system to pave the way for future growth.