Corporate Governance: Barriers, Issues, and Implications in a Developing Economy

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Abstract:

The dominant influence of corporate governance principles in corporate administration is beyond question. The pervasive influence of corporate governance principles has been largely attributable to the adverse consequences of non-compliance with provisions of corporate governance codes. The issue is particularly important for developing countries like India since it is central to financial and economic development. Recent research has established that financial development is largely dependent on investor protection in a country – de jure and de facto. With the legacy of the English legal system, India has one of the best corporate governance laws but poor implementation together with socialistic policies of the pre-reform era has affected corporate governance. Concentrated ownership of shares, pyramiding and tunneling of funds among group companies mark the Indian corporate landscape. Since liberalization, however, serious efforts have been directed at overhauling the system with the SEBI instituting the Clause 49 of the Listing Agreements dealing with corporate governance. This paper argues that the corporate governance problems in India are very different. The problem in the Indian corporate sector (be it the public sector, the multinationals or the Indian private sector) is that of disciplining the dominant shareholder and protecting the minority shareholders. Clearly, the problem of corporate governance abuses by the dominant shareholder can be solved only by forces outside the company itself. Indian companies have been greatly impacted by corporate governance imperatives. Corporate governance refers to the structure of a large business and how the business decides its policies and growth strategy. Corporate governance typically means that a board of directors controls the entire corporation while an executive board makes key business decisions, and layers of management progress beneath them into different
departments. Corporate governance is a key issue in society and can be a struggle for corporations on several levels. This paper, while highlighting the legal framework for corporate governance in India and the benefits of adherence to sound corporate governance principles, points out some inherent shortcomings of the corporate governance regime in the country.

*Design/methodology/approach* – A combination of quantitative and qualitative research methods are employed to collect information. Specifically, data were collected from managers, company presidents, and board of directors in selected firms. Descriptive data and interview analyses are presented with respect to the barriers and issues hindering effective corporate governance development and implementation in India.

*Research limitations/implications* – The study is limited. A broader geographic sampling would better reflect the national profile. Another limitation could stem from the procedure used in data collection. However, extreme measures were taken to protect the identities of the respondents.

*Originality/value* – The significance of this study stems from the fact that very few studies have explored the impact of human resource challenges and prospects in India. The results provide additional insights into corporate governance practices in India.