

# Corporate Governance in Medium Size Organizations

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*Corporate Governance came in India after 1996, economic liberalization and deregulation of industry and business. Corporate Governance was needed to separate the management from the ownership. For the Success of a firm it has to concentrate on social and economical aspect both. Apart from the responsibilities towards customers and employees, concept of decision making between shareholders has also been evolved over the time. There are studies on how organizations are governed and how they should comply with it. However, these studies are limited only to the well established firms. This paper will discuss barriers in the governance of mid-size organization in emerging economy, and how the pillars of corporate governance impact the company's performance by developing and implementing policies, process, procedures, transparency, disclosure, risk management and strategic planning and recommend which mechanism will be more effective for medium size organizations. Next, it will discuss about the vulnerabilities in the industry and the scams in India and how to protect the stakeholders and the sustainable growth of the organization, and finally will talk about the technology advancement and future of corporate governance in India. This shall conclude that no matter what the size of the organization is, implementing the corporate governance principle, organizations will see the positive impact.*

**Keywords:** Corporate governance transparency, culture technology, economy India, SEBI, organization accountability director

## 1. Introduction

In India, corporate governance is set of controls, procedure and policies, this form a framework for company's operations and also takes care of the dealings with stakeholders; management, employees, customer and government bodies. Corporate governance in the niche practice that an organization should indulge itself to be a successful business. Corporate governance is needed to fill the gap between the separation of ownership and management and to help the organization to focus on social and economical aspect. In India most of the businesses are unanimous and acknowledgement of the corporate governance is important to ensure the smooth running of operations and most of them agree that the culture of the company plays a vital role in practices of corporate governance. In India it has been evident, that malpractices has impacted the companies so to ensure that the organization's practices are align with the regulations, Transparency and Diligence have become the key concepts in this environment of business. Good corporate governance comes from all directions and good practices help in delivering better monetary results. Survey helped to recognized that there is need for mandatory corporate governance policies even for the unlisted companies for better financial and operational results. Most of the businesses today recognize the importance of independent directors for promoting practices of good corporate governance, considering the proximity of the company and the proficiency of bringing neutral perspective. Initiatives towards the innovation and corporate governance have seen significant impact on the overall India's landscape of governance. According to "World Economic Forum assessment India has been ranked 15<sup>th</sup> for the corporate governance worldwide" and it has been ranked 2<sup>nd</sup> in decentralized approach, stipulating it's priorities towards shareholder governance. Corporate governance act as a tool in changing environment for the business to compete and sustain. It is a field of multidisciplinary that study-consulting, management, finance, economics, ethics and

accounting. It's main role is to describe the task or privileges by making agreements between shareholders and organization. And in case of any dispute or disagreement it is the corporate governance's responsibility in bringing every-one together. It also functions as setting standards by which corporations are administrated and managed. One question that comes in mind while thinking and talking about corporate governance, why do countries do not follow or follow the same practices? The answer is in the history itself, earlier corporate governance was divided in two theories Continental European and Anglo-American. Anglo American was considered as "short term equity finance, shareholder rights, flexible market, dispersed ownership." Where other was considered as "long term debt, weak rights for shareholders and capital control's inactive market" Countries have to consider various factors like world presence, deregulations and globalization etc to follow either of the pure systems.

## 2. Objective

The objective of this is to understand the corporate governance of mid size organizations from view point of India in today's economy, and further it will discuss the influencing indicators of good corporate governance, transparency and diligence. Scope of this paper will also discuss the relation between the corporate governance and corruptions, frauds leading to the significant losses to the organizations. Next, it will discuss the future of corporate governance in India and technology advancements.

## 3. Methodology

Qualitative Research:

- Focus Group Discussions
- Individual Interviews
- Observations

This is helpful for the initial stage of the research when the point of focus is not clear about the studies. It was natural

Volume 9 Issue 3, March 2020

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way of approach and no such planned-designed was required. And other advantage of this was, it gave data in rich form of literature review and visual evidences. Demerits: Provided data as a subjective view and had to interpret according to the available content and the gathered data and another disadvantage was that it was time consuming as it is a critical task to identifying the target focused groups or individuals which can help to give the actual insights about the topic.

#### 4. Literature Review

In past years corporate governance became important issue not only for the well established firms but also for the mid size organizations worldwide. Regulators realized good corporate governance not only helps in sustainable development, but also prevent corporate scandals by protecting public interest and capital from the external sources. Corporate governance and SEBI norms defined "Corporate governance as the system by which the business are directed and controlled." Good corporate governance framework assures the investors of the companies regarding the returns. OECD says "Corporate governance includes a set of relationships between a company's management, it's board, it's shareholders and other stakeholders. Corporate governance also provides the arrangements through which the objectives of thee company are set. Good corporate governance should provide proper incentives for board and management to achieve these objectives which are in the interest of the shareholders and should facilitate effective monitoring." [1] Medium size organizations are those organizations whose turnover and headcount have certain limits. It has been witnessed that number of the medium size organizations growth compared to the larger organizations are one of the driving forces in today's economy. Mid sized organizations needs to be more focused on transparency and maximization of share holder values to attract foreign investments. India was lagging behind in corporate governance until the liberalization took place in 1991. In 1992 reforms were made- SEBI and the main objective of Security and Exchange Board of India was to supervise the trading of stocks and gradually over the period of time it formed rules and regulations for corporate governance. For the ground works of the best practices in corporate governance, "Narayan Murthy and Kumar Mangalam Birla" under SEBI were setup. Further clause 49 was reformed due to the scandals like Satyam, WorldCom, Enron etc. Clause 49 came in effect from 2000, containing all the requirements and regulations of board members, necessary committees, audit committee rules, minimum number of independent directors etc. Organizations were imposed penalties and were removed from listing in case in non-compliance. Clause 49 was adopted from Sarbanes-Oxley act and as management and directors are concerned they have same set of rules for trading or denial of loans to other directors but the difference is under SOX if any fraud is reported imprisonment up-to 20 years can be charged, but not in the case of clause 49. SEBI can decide to commence serve-punishment then the company will be delisted automatically. Corporate governance not only help the organizations operations but it also boost the country's economy by getting bigger market and new opportunities, further decreased capital cost get the organizations to be valued at a

higher cost, leading to the attraction by the other organizations again reducing the unemployment and directing toward growth. Financial conditions can be improved by proper allocation of resources and practicing good management which can only be achieved by enhancement of performance in operations. Corporate governance can help in reducing the financial crisis, and In India has witnessed the devastating impacts of these crises. But sound corporate governance can helps in creating a goof rapport with all stakeholders and significantly improve the process of investment. As it provides protection of property thus it affects the organization's capital. Funds received has to be transparent and disclosing all the details. Hence to handle the finance received, organizations should have well planned allocation of resource and distribution system to avoid any fraudulent-behavior causing the financial crisis. Thus the corporate governance is a critical issue even for the mid sized organizations which are playing a vital role in boosting our economy.

India's mid size organizations plays a significant role in the country's GDP and it has potential of more growth with the foreign investments and opportunities for entrepreneurs. However, with global fraud reports the median loss of mid size organization is \$180,000. Most common frauds in mid size organizations involve the employees making fraudulent checks, or revenue skimming etc. And loss is directly related to the perpetrator's position in the organization. Thus in medium size organizations it is important to make a trust level between employees and creates an environment where management and stakeholders know each other well.[2] Corporate Governance practice helps the organizations and stakeholders, and to-do so various mechanism and committees are required. The Audit committee makes sure about protecting the rights of auditor so that he can give the unfavorable and unbiased report. For the mid size organizations framework of corporate governance should be broad and cover aspects and structure of ownership. Corporate governance has become a critical issue for the mid size organizations in India as they have investments from the developed countries. Over the past years several reforms have been made in the developed countries and for the large organizations to protect the rights of the investors but they also affect the investments in mid size organizations in India. Ethics plays a vital role in corporate governance but to understand the underlying issues with the mid size organization in India culture of these organizations is the driving force in the operating dynamics of the corporate governance. But it is a challenging task to define a healthy corporate culture. Culture can be considered as two components "One of them requires having leadership that is in strong agreement about what they value. The other is leadership that has a high level of intensity with regard to those values." These can be embedded into strong program of ethics and compliance. Before creating or understanding the culture's definition, board has to create an environment where stakeholders or employees connects with and feels that the work they are doing or their inputs towards the organization are rewarded. CEO plays a vital role in the succession of good corporate culture and governance. Thus despite of any unforeseen or expected changes in the leadership culture of the organization has to be strong to withstand in any conditions. Organizations with the weak

culture are more vulnerable to have poor conduct. And a poor code of conduct for employees and weak culture in organization can affect the performance and it may further leads to the potential crisis.[3] Corporate governance can never overcome the boundaries of the culture if merely seen as strategy. Corporate governance is about what needs to be done, what is not. What needs to be tolerated and what's not, lived and rewarded by the leaders of the organization. [4] Remuneration policy should be formal and procedure for its implementation has be in sync with the company's long-term-objective, strategy and culture. Medium size organizations have moderate employees in number, thus it might not be effective in terms of cost to have different committees for remuneration etc. Thus depending on the size of the organization and the board, advisable to have the necessary committee in place or give the directors the right and authority otherwise be undertaken by those committees, an obligation for excluding themselves from the issues where having personal-interest. For investors to make decision financial reporting is critical information. Major issue in financial reporting is that these are not presented fairly due several reasons. Without these statements it is not possible to understand the working condition of an organization properly thus most of the mid size organizations misleads their stakeholders. Transparency in reporting helps creditors and investors to evaluate the condition of the organization. Moreover it also boost the confidence in the market for fair trade practices.[5] Thus it is necessary for regulators to ensure transparency in the market and interested investors are given the proper and reliable information. Good corporate governance practices and transparency in financial statements helps boards of directors and other investors to take necessary steps for an organization in debt. Corporate governance is not just about the transparency in the statements of the finance but it's a holistic view of other matters that gives the necessary information to the investors and gives guidance for the future earnings and the targets. According to the United Nations Conference on Trade and Development 2006, "the guidance places emphasis on financial disclosures and a range of non-financial disclosures such as company objectives; ownership and shareholders rights; changes in control and transactions involving significant assets; and governance structures and policies, etc ". Considering the volatility of foreign investments for medium size organizations it is essential to have an adequacy in transparency and financial reporting. And to build a transparency culture fundamental step is to achieve trust. Transparency can only be happen when it's a two way communication between management and stakeholders and everyone's thought is considered and respected. If the executives and board is willing to understand or listen opposing point of view and consider merits, they have grounded the transparency culture. Second, the information flow in an organization of mid size is directly related to the organization's culture. The way information is assembled and is made available for other-parties creating informed, communicative-environment. Mid size organization's board of directors are responsible for culture of transparency and accountability. And the management has to create the processes and programs to make sure these practices are executed. Strong corporate governance and transparency is must for the mid size organizations for the international-

transactions. Transparency is a thin line between the investor's right to know and organization's right to privacy. Thus Risk consultants or professionals needs proper and consistent data on the past and current vulnerabilities or exposure. This relationship between governance, compliance and mitigation helps to track and ensure the organization is prepared well for any-uncertainty and make sure that the mechanism for the risk mitigation is in the place.

In post-recession culture corporate governance faced new challenges; increased pressure and responsibilities of socio economic factors from public, and adapting regulatory changes from government. After the fallout if the financial crisis, organizations realized that there is a need to understand the finance reports in better way thus the data and the information available should be easy to understand and read and with these demands in mid size organizations, boards should enlist the help of new technology. The disclosure and transparency concept in mid size organizations is disconnected-from actual needs of the market. [6] Growth in GRC (governance risk compliance) has been recognized and increased responsibilities for board as well. In all this boards are continuously looking for new opportunities to performance and efficiency enhancement, alongside marinating a balance between compliance regulations. And Technology can play a significant role in the sound corporate governance for mid size organizations. Technology can help in improving the different elements of mid size organizations, and it is more critical in improving the viability and relevance to the society. Technology can play a vital role in these organizations by setting up programs and meetings in an efficient way, that will have better quality and the data of the same will be readily available, apart from these also cutting down the training cost. In mid size organizations it is critical to have an improved and better method to embed technology in corporate governance, since developing technology for all types of mid size organizations in India can't be afforded. A mismatch has been seen between the challenges faced by these mid size organizations and capabilities required by directors of the board. Commonly they don't have any expertise in new requirements or technology. Diversity among the board is also important aspect of corporate governance be it age, gender or origin. This helps in having different visions towards the challenges. Thus to survive in the technology revolutions directors either be executive or non executive address these disruptions and embrace their innovative ideas with the board and management. Utilization of technology to enhance the governance, needs innovation and expertise in technology embedded with the culture of these mid size organizations to support the best governance practices and make on action oriented answer of the governance needs to the mid size organization. Technology service provider's main aim is to help the boards and organization to perform in an efficient way with more accuracy. New solutions can help directors of the board to conduct business of the board securely from their smart devices. Data of the organizations are critical, thus security is sensitive issue when considering the technology advancements in the organization. They have to make sure that their company's critical data is safe and create workflows much more secure by using authentication and encryption techniques. New technology solutions, have

organized many inefficient duties of the board. Directors of the board get the required documents within seconds instead of waiting for the mails. This time saving delivery system helps directors to plan ahead everything by reviewing the documents, committee reports, agenda and financial reports. Travelling cost has also cut down in mid size organizations, using the technology using teleconference. Transparency and accountability will be enhanced upon incorporating the technology solution with corporate governance in mid size organizations.[7] Automation enhances transparency and accountability as it will reduce the errors. New technology will be able track the discussions or the changes of the board and gives a holistic view of the final conclusion by the board and how they arrived at it. Software available in market can help to track the authorization, changes in the packet or the critical documents of the board and by whom and other documents, keeping track of the last meeting of board. These Technology solutions simplified the process for compliance and auditing since it creates a permanent log that can be reviewed by the shareholders or regulators.

## 5. Findings

- 1) For Company's decision making stakeholders seek a greater voice.
- 2) Most of the firms confirm that good corporate governance practices help organization to achieve better operational and financial results.
- 3) Most of the organizations confirms that the culture is an important catalyst to implement strong corporate governance
- 4) Most of these organizations believe that technology has played a vital role in improving corporate governance.
- 5) Some of the mid size organizations lack behind in adaptation to technology due to the cost issues.
- 6) Most of the organizations believe adapting technology can lead to a better corporate culture and transparency.
- 7) 90% organizations agreed that transparency is a critical factor for gaining the confidence of the stakeholders and plays vital role in enhancing the overall performance.

## 6. Conclusion

In this paper, we saw the importance of sound corporate governance for the medium size organizations. We also looked at the history of governance in India and the current situation on how the corporate governance is a critical issue even for the mid sized organizations which are playing a vital role in boosting our economy. Then the cultural aspect of the corporate governance was studied, Organizations with the weak culture are more vulnerable to have poor conduct. Transparency also plays an important role in making corporate governance more effective. Mid size organization's board of directors are responsible for culture of transparency and accountability. And the management has to create the processes and programs to make sure these practices are executed. And finally the challenges towards technology adaptation in mid size organization for enhancement of corporate governance was covered. Technology has helped it increasing transparency and information available, participation of public has also increased, and technology helps in combating frauds and provides security and utilizing of technology enhance the

governance, needs innovation and expertise in technology embedded with the culture of these mid size organizations to support the best governance practices and make on action oriented answer of the governance needs to the mid size organization.

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