SUSTAINABLE CORPORATE GOVERNANCE AND ITS IMPORTANCE IN INDIA

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ABSTRACT

In order to create long-term wealth while minimising adverse effects on society and the environment, a company's operations must be managed ethically and responsibly. This is known as sustainable corporate governance. As firms become more aware of the need to strike a balance between profitability and social and environmental responsibilities, sustainable corporate governance is taking on more significance in India.

Implementing sustainable corporate governance in India also faces a number of difficulties, including a lack of resources and knowledge, a lack of openness and accountability, and the requirement for cultural change within organisations.

In spite of these difficulties, effective corporate governance is turning out to be more and more important for Indian businesses to stay competitive and satisfy stakeholders. Companies can build long-term value while improving society and the environment by implementing sustainable corporate governance practises.

Corporate governance refers to the set of rules, practices, and processes that companies use to manage their operations and provide oversight to their management. It is important for several reasons:[1]

1. Accountability: Corporate governance ensures that the company's management is accountable to its shareholders, employees, customers, and other stakeholders.

2. Transparency: Corporate governance requires companies to disclose information about their operations, financial performance, and management practices to stakeholders, increasing transparency and building trust.

3. Risk management: Effective corporate governance helps companies identify and manage risks, including operational, financial, legal, and reputational risks.

4. Investor confidence: Good corporate governance practices can enhance investor confidence, leading to improved access to capital and higher valuations.

5. Compliance: Corporate governance helps companies comply with laws and regulations, preventing legal and reputational damage.

6. Sustainability: Corporate governance promotes sustainable practices, ensuring that companies consider their environmental and social impact.

In summary, corporate governance is important for ensuring accountability, transparency, risk management, investor confidence, compliance, and sustainability. Good corporate governance helps to ensure that a company operates in a responsible and sustainable manner, which can lead to a range of benefits.[2]

SUSTAINABLE CORPORATE GOVERNANCE

Sustainable corporate governance refers to the practice of managing a company in a way that considers the environmental, social, and economic impacts of its activities, both in the short

[1] Admin, introduction to corporate governance, corporate governance and sustainability, (Apr. 18, 2023, 10:00 AM), https://csmathsg.com/course-content/week-10/section-10-1-corporate-governance-and-sustainability/
[2] Ibid

and long term.[3]

The goal of sustainable corporate governance is to create long-term value for all stakeholders, including shareholders, employees, customers, suppliers, and the wider community. It involves integrating sustainability considerations into all aspects of the company's operations, including its strategic planning, risk management, and decision-making processes.[4]

Some key elements of sustainable corporate governance include:

1. Environmental stewardship: This involves reducing the company's environmental impact by minimizing its carbon footprint, conserving natural resources, and reducing waste.[5]

2. Social responsibility: This involves ensuring that the company operates in a socially responsible manner by treating employees, suppliers, and customers fairly and ethically, and by contributing to the communities in which it operates.[6]

3. Economic sustainability: This involves managing the company's finances in a way that ensures its long-term viability, including investing in research and development, maintaining financial stability, and creating value for shareholders.[7]

Overall, sustainable corporate governance is an essential part of creating a more sustainable and equitable world, and it is becoming increasingly important for companies to prioritize sustainability in their operations.[8]

CORPORATE GOVERNANCE IN INDIA

In India, corporate governance has gained significant importance over the past few decades, following several high-profile corporate scandals and instances of corporate fraud. The

[3] Admin, core principles of good corporate governance, corporate governance and sustainability, (Apr. 18, 2023, 2:00 PM), https://csmathsg.com/course-content/week-10/section-10-1-corporate-governance-and-sustainability/
[4] Ibid
[5] Ibid
[6] Admin, core principles of good corporate governance, corporate governance and sustainability, (Apr. 18, 2023, 3:00 PM), https://csmathsg.com/course-content/week-10/section-10-1-corporate-governance-and-sustainability/
[7] Ibid
[8] Ibid

government, regulators, and other stakeholders have taken several measures to improve the corporate governance practices in the country.[9]

Some of the key regulations and guidelines that have been implemented to promote corporate governance in India include the Companies Act, 2013, the Securities and Exchange Board of India (SEBI) regulations, the listing agreement of stock exchanges, and the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business.[10]

These regulations and guidelines prescribe several mandatory and voluntary provisions related to board composition, board committees, audit and risk management, remuneration of directors and key management personnel, related party transactions, shareholder rights, and corporate social responsibility.[11]

In addition to these regulations, there are several industry-specific codes and best practices that companies in India follow to improve their corporate governance standards. Some of these include the Confederation of Indian Industry (CII) code on corporate governance, the Securities Industry and Financial Markets Association (SIFMA) code of conduct, and the Institute of Company Secretaries of India (ICSI) guidelines.[12]

Overall, the regulatory framework and best practices in India have evolved significantly over the years to promote better corporate governance practices, which are crucial for promoting long-term sustainable growth and maintaining investor confidence in the country's capital markets.[13]

CHALLENGES FOR SUSTAINABLE CORPORATE GOVERNANCE IN INDIA

There are several challenges for sustainable corporate governance in India. Here are some of the major challenges:[14]

[9] Cyril Shrof, Amita Gupta, main legislativeregulatory and other sources relating corporate governance, setting scene sources and overview, (Apr. 19, 2023, 9:00 AM), https://iclg.com/practice-areas/corporate-governance-laws-and-regulations/india
[10] Ibid
[11] Ibid
[12] Ibid
[13] Ibid
[14] Sharad Abhayankar, Saranya Mishra, Issues of good corporate governance in India, government corporate securities and governance, (Apr. 19, 2023, 10:00 AM), https://docket.acc.com/top-10-issues-corporate-governance-practices-india

1. Lack of awareness and understanding: Many companies in India are not fully aware of the concept of sustainable corporate governance and how it can benefit their businesses in the long run. There is a need to raise awareness and educate companies on the importance of sustainable practices.[15]

2. Limited regulatory framework: Although there are regulations in place for corporate governance, there is a lack of specific regulations for sustainable corporate governance in India. There is a need for a stronger regulatory framework to ensure that companies are held accountable for their sustainability practices.[16]

3. Short-term focus: Many companies in India are focused on short-term profits rather than long-term sustainability. This often leads to unsustainable practices such as overuse of resources and disregard for environmental and social impacts.

4. Inadequate reporting: Companies in India need to improve their reporting on sustainability practices. They need to provide transparent and comprehensive information on their environmental and social impacts, as well as their governance structures and processes.

5. Limited access to finance: Sustainable practices often require significant investment, which may be difficult for smaller companies to access. There is a need for more financing options for companies looking to invest in sustainable practices.[17]

Overall, addressing these challenges requires a concerted effort from all stakeholders, including the government, businesses, investors, and civil society organizations. By working together, sustainable corporate governance can become a norm in India, leading to a more sustainable future for all.[18]

DEVELOPMENT OF SUSTAINABLE CORPORATE GOVERNANCE IN INDIA

Corporate governance in India has undergone significant developments over the past few

[15] Ibid
[16] Ibid
[17] Ibid
[18] Sharad Abhayankar, Saranya Mishra, Issues of good corporate governance in India, government corporate securities and governance, (Apr. 19, 2023, 3:00 PM), https://docket.acc.com/top-10-issues-corporate-governance-practices-india

decades, spurred by changes in the global business environment, and the growing importance of corporate responsibility and accountability.[19]

The first major development in corporate governance in India was the establishment of the Securities and Exchange Board of India (SEBI) in 1992, which brought about significant changes in the regulatory framework governing the Indian securities market. SEBI introduced a series of regulations aimed at improving the disclosure practices of Indian companies, strengthening shareholder rights, and improving the accountability of corporate boards.[20]

In 1999, the Confederation of Indian Industry (CII) released a voluntary code of corporate governance, which was later updated in 2002. This code included a set of best practices for Indian companies to follow, covering areas such as board composition, executive compensation, and shareholder rights.[21]

The Companies Act of 2013 introduced several significant changes to corporate governance in India, including the establishment of a mandatory corporate social responsibility (CSR) framework for companies with a net worth of over INR 500 crore or a turnover of over INR 1,000 crore. The Act also mandated the appointment of at least one-woman director on the board of certain companies, and the introduction of several provisions aimed at increasing transparency and accountability.[22]

In 2016, SEBI introduced the SEBI (Listing Obligations and Disclosure Requirements) Regulations, which consolidated several existing regulations and introduced new requirements related to corporate governance for listed companies in India. These regulations mandate the appointment of independent directors, the formation of various committees, and the disclosure of information related to board composition, executive compensation, and related-party transactions.[23]

[19] Andrew Hobbs,Issues of good corporate governance in India, government corporate securities and governance, (Apr. 19, 2023, 10:00 AM), https://www.ey.com/en_gl/public-policy/how-corporate-governance-can-help-build-a-more-sustainable-world
[20] Andrew Hobbs, Issues of good corporate governance in India, government corporate securities and governance, (Apr. 19, 2023, 11:00 AM). https://www.ey.com/en_gl/public-policy/how-corporate-governance-can-help-build-a-more-sustainable-world
[21] Ibid
[22] Ibid
[23] Ibid

Overall, the development of corporate governance in India has been characterized by a shift towards greater transparency, accountability, and responsibility on the part of companies, as well as increased focus on the role of independent directors and shareholder rights.[24]

CONCLUSION

Corporate fraud is a serious problem that can have significant economic and social consequences. Sustainable corporate governance can help prevent corporate fraud by promoting transparency, accountability, and responsible business practices.[25]

One key element of sustainable corporate governance is transparency. Transparency requires companies to disclose information about their financial performance, ownership structure, and other relevant information to stakeholders, including shareholders, regulators, and the public. This information can help identify potential fraudulent activities and deter unethical behaviour.[26]

Another important element of sustainable corporate governance is accountability. This means that companies must take responsibility for their actions and be held accountable for any wrongdoing. This can be achieved through effective corporate governance mechanisms, such as independent boards of directors, strong audit committees, and effective internal control systems.[27]

Responsible business practices are also critical to preventing corporate fraud. This includes implementing ethical codes of conduct, promoting a culture of integrity within the company, and ensuring that employees are trained on ethical business practices. Companies can also implement internal reporting systems and encourage whistle blowers to report any potential fraudulent activity.[28]

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[24] Andrew Hobbs, Issues of good corporate governance in India, government corporate securities and governance, (Apr. 19, 2023, 8:00 PM), https://www.ey.com/en_gl/public-policy/how-corporate-governance-can-help-build-a-more-sustainable-world

[25] Jo Eilis, recommendation for preventing fraud and corruption, how corporate governance can prevent fraud and corruption, (Apr. 20, 2023, 9:00 AM), https://www.thecorporategovernanceinstitute.com/insights/guides/how-corporate-governance-can-prevent-fraud-and-corruption/

[26] Ibid

[27] Ibid

[28] Jo Eilis, recommendation for preventing fraud and corruption, how corporate governance can prevent fraud and corruption, (Apr. 20, 2023, 11:00 AM),

Finally, sustainable corporate governance requires companies to consider their impact on the environment and society. By promoting sustainable business practices, companies can reduce their environmental impact, improve social outcomes, and build long-term value for stakeholders. This can help reduce the incentive for fraudulent behaviour, as companies are motivated to act in the long-term interests of their stakeholders.[29]

In summary, sustainable corporate governance can play an important role in preventing corporate fraud by promoting transparency, accountability, responsible business practices, and consideration of environmental and social impacts. Companies that embrace sustainable corporate governance are more likely to operate in a responsible and ethical manner, reducing the risk of fraudulent activities and building long-term value for stakeholders.[30]

https://www.thecorporategovernanceinstitute.com/insights/guides/how-corporate-governance-can-prevent-fraud-and-corruption/

[29] Ibid

[30] Jo Eilis, recommendation for preventing fraud and corruption, how corporate governance can prevent fraud and corruption, (Apr. 20, 2023, 2:00 PM), https://www.thecorporategovernanceinstitute.com/insights/guides/how-corporate-governance-can-prevent-fraud-and-corruption/