CONCEPTUAL CORPORATE GOVERNANCE IN INDIA : A CASE STUDY OF TATA GROUP

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The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure. The governance issue in the US or the UK is essentially that of disciplining the management who have ceased to be effectively accountable to the owners. 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. Regulators can facilitate the process by measures such as: enhancing the scope, frequency, quality and reliability of information disclosures; promoting an efficient market for corporate control; restructuring or privatizing the large public sector institutional investors; and reforming bankruptcy and related laws. Issues of corporate governance have been hotly debated in the United States and Europe over the last decade or two. In India, these issues have come to the fore only in the last couple of years. Naturally, the debate in India has drawn heavily on the British and American literature on corporate governance. There has been a tendency to focus on the same issues and proffer the same solutions. Most companies strive to have a high level of corporate governance. These days, it is not enough for a company to merely be profitable; it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behavior and sound corporate governance practices.

Objectives of the Study

The core objective of the study to explore/provide conceptual framework on the corporate governance in Indian context and to study the corporate governance practices in Tata group industry at present.

Specific Challenges in Governance Reporting

- Standardized disclosures are seen as a safe option in corporate reporting. To give company-specific information — for instance, about particular events or challenges that the company faces — is seen as potentially risky even where it is not obviously commercially sensitive.

- It takes courage to 'lead the way' in reporting, moving away from precedent in the form of similar disclosures published previously by others. Of course larger organizations may have more resources at hand to allow them to do this.

- Corporate reporting is used by a number of different audiences, each with differing needs; companies worry that too much customization will mean their reporting fails to meet the needs of a particular group.

- The various elements of the front half of the annual report are often drafted separately, leading to differing approaches and styles and also to a lack of integration, perhaps beyond some basic cross-references. This is particularly limiting for corporate governance as it can be related to many areas of the Organization — in fact to almost everything in the annual report

- Governance deals with particularly sensitive areas: board-level governance focuses specifically on the activities of the directors, and their individual characteristics, relationships and even the evaluation of their performance.

Corporate governance is increasingly demanding our attention and has moved centre stage. The Enron and WorldCom scandals in the U.S have amply demonstrated the necessity of having a system of corporate governance even in the developed world. In a liberalizing and deregulating country like India, corporate governance is all the more important.

Historical Emergence of Corporate Governance

With the changing times, there was also need for greater accountability of companies to their shareholders and customers. The report of Cadbury Committee on the financial aspects of corporate Governance in the U.K. has given rise to the debate of Corporate Governance in India. Corporate governance concept emerged in India after the second half of 1996 due to economic liberalization and deregulation of industry and business. Need for corporate governance arises due to separation of management from the ownership. 20th century witnessed the glossy of Indian Economy due to liberalization, globalization, and privatization. Indian economy for the 1st time here was together with world economy for product, capital and lab our market and which resulted into world of capitalization, corporate culture, business ethics which was found important for the existence of corporation in the world market place. For a firm success, it needs to concentrate on both economical and social aspect. It needs to be fair with producers, shareholders, customers etc. It has various responsibilities towards employees, customers, communities and at last towards governance and it needs to serve its responsibilities at the best at all aspects. The "corporate governance concept" dwells in India from the Arthshastra time instead of CEO at that time there were kings and subjects. Today, corporate and shareholders replace them but the principles still remain same, unchanged i.e. good governance.

Definitions of Corporate Governance

By Cadbury Committee (U.K.), 1992 *has defined corporate governance as such : "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides this; it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."*

By the Institute of Company Secretaries of India *has explained "Corporate Governance is the application of best Management practices, Compliance of law in true letter and spirit and adherence to ethical standards for Effective Management and distribution of wealth and discharge of social Responsibility for sustainable development of all stakeholders".*

Major Issues in Corporate Governance

There are several important issues in corporate governance and they play a great role, all the issues are inter related, interdependent to deal with each other and each issues connected with corporate governance have different priorities in each of the corporate bodies.

1. Value based organizational culture: For any organization to run in effective way, it needs to have certain ethics, values. Long run business needs to have based corporate culture. Value based corporate culture is good practice for corporate governance. It is a set of beliefs, ethics, principles which are inviolable. It can be a motto i.e. A short phrase which is unique and helps in running organization, there can be vision i.e. dream to be fulfilled, mission and purpose, objective, goal, target.

2. Holistic vista : This holistic view is more or less godly, religious attitude which helps in running organization. It is not easier to adopt it, it needs special efforts and once adopted it leads to developing qualities of nobility, tolerance and empathy.

3. Compliance with laws and order: Those companies which really need progress, have high ethical values and need to run long run business they abide and comply with laws of Securities Exchange Board Of India (SEBI), Foreign Exchange Regulation Act, Competition Act 2002, Cyber Laws, Banking Laws etc.

4. Disclosure, transparency, and accountability: Disclosure, transparency and accountability are important aspect for good governance. Timely and accurate information should be disclosed on the matters like the financial position, performance etc. Transparency is needed in order that government has faith in corporate bodies and consequently it has reduced corporate tax rates from 30% today as against 97% during the late 1970s. Transparency is needed towards corporate bodies so that due to tremendous competition in the market place the customers having choices don't shift to other corporate bodies.

5. Corporate Governance and HRM: For any corporate body, the employees and staff are just like family. For a company to be perfect the role of Human Resource Management becomes very vital, they both are directly linked. Every individual should be treated with individual respect, his achievements should be recognized. Each individual staff and employee should be given best opportunities to prove their worth and these can be done by Human Resource Department. Thus in Corporate Governance, Human Resource has a great role.

6. New Innovation: Every Corporate body needs to take risk of innovation i.e. innovation in products, in services and it plays a pivotal role in corporate governance.

7. Lessons from Corporate Failure : Every story has a moral to learn from, every failure has success to learn from, in the same way, corporate body have certain policies which if goes as a failure they need to learn from it. Failure can be both internal as well as external whatever it may be, in good governance, corporate bodies need to learn from their failures and need to move to the path of success.

Corporate Governance in India

Global competitions in the market need best planning, management, innovative ideas, compliance with laws, good relation between directors, shareholders, employees and customers of companies, value based corporate governance in order to grow, prosper and compete in international markets by strengthen their strength overcoming their weaknesses and running them effectively and efficiently in an efficient and transparent manner by adopting the best practices. Corporate India must commit itself as reliable, innovative and prompt service provider to their customers and should also become reliable business partners in order to prosper and to have all round growth. Corporate Governance is nothing more than a set of ideas, innovation, creativity, thinking having certain ethics, values, principles etc which gives direction and shape to its people, employees and owners of companies and help them to flourish in global market. Good corporate governance in the changing business environment has emerged as powerful tool of competitiveness and sustainability. It is very important at this point and it needs corporation for one and all i.e. from chief executive officer of company to the ordinary staff for the maximization of the stakeholders' value and also for maximization of pleasure and minimization of pain for the long term business. Indian Corporate Bodies having adopted good corporate governance will reach themselves to a benchmark for rest of the world; it brings laurels as a way of appreciation. Corporate governance lays down ethics, values, and principles, management policies of a corporation which are inculcated and brought into practice. The importance of corporate governance lies in promoting and maintains integrity, transparency and accountability throughout the organization. Several Indian Companies like PepsiCo, Infuses, Tata, Wipro, TCS, and

Reliance are some of the global giants which have their flag of success flying high in the sky due to good corporate governance.

Today, even law has a great role to play in successful and growing economy. Government and judiciary have enacted several laws and regulations like SEBI, FEMA, Cyber laws, Competition laws etc and have brought several amendments and repeal the laws in order that they don't act as barrier for these corporate bodies and developing India. Judiciary has also helped in great way by solving the corporate disputes in speedy way.

In the present scenario, stakeholders are given more importance as to shareholders, they even get chance to attend, vote at general meetings, make observations and comments on the performance of the company. Corporate governance from the futuristic point of view has great role to play. The corporate bodies in their corporate have much futuristic approach. They have vision for their company, on which they work for the future success. They take risk and adopt innovative ideas, have futuristic goals, motto, and future objectives to achieve. With increase in interference and free trade among countries and citizens across the globe, internationally accepted corporate governance standards are of paramount importance for Indian Companies seeking to distinguish themselves in global footprint. The companies should always keep improving, enhancing and upgrading themselves by bringing more reliable integrated product and service quality. They should be more transparent in their conduct.

Corporate governance should also have approach of holistic view, value based governance, should be committed towards corporate social upliftment and social responsibility and environment protection. It also involves creative, generative and positive things that add value to the various stakeholders that are served as customers. Be it finance, taxation, banking or legal framework each and every place requires good corporate governance.

Corporate Governance and Tata group of Industry

The Company has set itself the objective of expanding its capacities and becoming globally competitive in its business. As a part of its growth strategy, the Company believes in adopting the 'best practices' that are followed in the area of Corporate Governance across various geographies. The Company emphasises the need for full transparency and accountability in all its transactions, in order to protect the interests of its stakeholders. The Board considers itself as a Trustee of its Shareholders and acknowledges its responsibilities towards them for creation and safeguarding their wealth. In accordance with the Tata Steel Group Vision, Tata Steel Group ('the Group') aspires to be the global steel industry benchmark for value creation and corporate citizenship. The Group expects to realize its Vision by taking such actions as may be necessary in order to achieve its goals of value creation, safety, environment and people. The Company has a Non-Executive Chairman and the number of Independent Directors is more than 50 percent of the total number of Directors in compliance with the Clause 49 of the listing Agreement. As on 31st March, 2014, the Company has 13 Directors on its Board, of which 7 Directors are independent. The number of Non-Executive Directors (NEDs) is more than 50 percent of the total number of Directors. The Company is in compliance with the Clause 49 of the Listing Agreements pertaining to compositions of Directors.

1. **Corporate Governance for Board of Directors**

Table - 1

Summary of corporate governance for Board of Directors in Tata Group Industry

Name of the Director	Identification Number	No. of Board Meetings attended during 2013-14	No. of Directorships in other public companies * as on 31.03.2014 (Chairman)	No. of Committee positions held in other public companies** as on 31.03.2014 (Chairman)	Share Holdings#
Mr. T. V. Narendran (Managing Director)	03083605	4	-	-	1753
Mr. Koushik Chatterjee (Executive Director)	00004989	9	2	1	1320
Dr. Karl-Ulrich Koehler	03319129	9	-	-	-
Mr. H. M. Nerurkar (Managing Director)	00265887	5	-	-	-
Mr. O P Bhatt	00548091	6	-	1	-

(Appointed w.e.f 10th June 2013)					
Mr. D. K. Mehrotra	00142711	-	-	-	-
Mrs.Mallika Srinivasan	00037022	6	3	-	-
Mr. Andrew Robb	01911023	9	-	-	-
Mr.Jacobus Schraven	01462126	7	-	-	-
Mr. Subodh Bhargava	00035672	6	3		1012
Mr. Ishaat Hussain	00027891	8	2	3	2216
Mr. S. M. Palia (Stepped down w.e.f. 25th April, 2013)	00031145	1	-	-	-
Mr. Nusli N. Wadia	00015731	9	4	-	-
Mr. B. Muthuraman (Vice-Chairman)	00004757	8	1	-	6230
Mr. Cyrus P. Mistry (Chairman)	00010178	9	9	1	-

* Excludes Directorships in associations, private, foreign and Section 25 companies.

** Represents Chairmanships/Memberships of Audit Committee and Shareholders'/Investors' Grievance Committee.

Shareholdings represents holdings in Director's personal capacity and either as sole or first or joint holder. Total Shareholding of the Directors as on 31st March, 2014 – 12,531 Ordinary Shares.

2. **Audit Committee**

The Company had constituted an Audit Committee in the year 1986. The scope of the activities of the Audit Committee is as set out in Clause 49 of the Listing Agreements with the Stock Exchanges read with Section 292A of the Companies Act, 1956. The terms of reference of the Audit Committee are broadly as follows:

- To review compliance with internal control systems;
- To review the quarterly, half-yearly and annual financial results of the Company before submission to the Board;
- To make recommendations to the Board on any matter relating to the financial management of the Company, including Statutory & Internal Audit Reports;
- Recommending the appointment of cost auditors and statutory auditors and fixation of their remuneration.
- To review the findings of the Internal Auditor relating to various functions of the Company;
- To hold periodic discussions with the Statutory Auditors and Internal Auditors of the Company concerning the accounts of the Company, internal control systems, scope of audit and observations of the Auditors/Internal Auditors;
- Review of Cost Audit Report.
- Reviewing the Company's financial and risk management policies.

3. **Remuneration Committee**

In 1993, The Company had constituted a Remuneration Committee. The functions of the Remuneration Committee are as follows:

- ➢ Review the performance of the Managing Director and the Whole-time Directors, after considering the Company's performance.
- ➢ Recommend to the Board remuneration including salary, perquisites and commission to be paid to the Company's Managing Director and Whole-time Directors.
- ➢ Finalize the perquisites package of the Managing Director and Whole-time Directors within the overall ceiling fixed by the Board.

- Recommend to the Board, retirement benefits to be paid to the Managing Director and Whole-time Directors under the Retirement Benefit Guidelines adopted by the Board.

Conclusion

The concept of corporate governance hinges on total transparency, integrity and accountability of the management and the board of directors. The importance of Corporate Governance lies in its contribution both to business prosperity and to accountability. In the age of globalization, global competition, good corporate governance helps as a great tool for corporate bodies. Corporate Governance is a means not an end, Corporate Excellence should be the end. Once, the good Corporate Governance will be achieved, the Indian Corporate Body will shine to outshine the whole world. Tata Group industry fully implemented the concept of Corporate Governance so that the objectives would be fulfilled. It is through appropriate reporting of governance that companies earn the right to the flexibility that a principles-based framework allows. Governance reporting is an integral part of the FRC's (Financial Reporting Council) proposals, which include enhanced audit committee reporting. But governance reporting also has a wider role to play in building investor confidence and encouraging the taking of a long term view. Governance is not just about confidence in the financial statements; it is about confidence in the company in general. It is about showing how the company's business model, strategy and objectives, risk, performance and reward are governed.

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