Corporate Governance Failure in India: A Study of Academicians Perception

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Corporate governance has been gaining momentum across the world due to corporate failures, unethical business practices and insufficient disclosures. It has been observed that corporate frauds have increased in frequency, intensity and magnitude. The prevailing inequality, glorification of greed, lack of concern for society, feudal mindset and manifold regulations, are some reasons responsible for increase in the rate of scams. Though a lot of new standards have been set, changes in accounting and reporting have been made, with a focus on the process of enforcement and compliance, but the need of the hour is to build a highly committed workforce to observe good corporate governance in practice. Thus, a major responsibility lies on the shoulders of academicians who are considered as intellectuals in imparting the concept of corporate governance in the minds of young professionals. The study aims to understand the perception of academicians regarding reasons for failure of corporate governance in India.

Introduction

"The need for good governance is not something that is typical to our country or the economy. Even in countries where regulatory mechanisms are more demanding in their content and more vigilant in their implementation, flagrant violations under the veil of corporate impenetrability have generated a strident demand for better governance. Depending on the model of corporate disclosure followed by different legal frameworks, the right to information has forced corporates to divulge more than they ever did.

Corporate governance has been gaining momentum across the world due to miserable corporate failures, unethical business practices, insufficient disclosure and transparence, inefficient management board and social concerns. As always, after a slew of scandals and corporate fraud there are cries of outrage, demand for bringing culprits to book, suggestions over how to improve corporate governance, setting up of committees and corporate governance dominating the political and business agenda. Scams have almost become a regular feature—the Harshad Mehta scam, Ketan Parikh scam, UTI scam, Bhansali scam, Satyam Scam and many more. Thanks to technology these frauds have become more visible.

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The basic reason for increase in the rate of scams is prevailing inequality. The corporate world is facing a big threat of inequality in today's connected world. People can live in poverty but not in injustice.

The glorification of greed in corporations for personal enrichment of senior executives has worsened inequality. The belief that corporations have to maximize only the shareholders value is not true in today's scenario. A corporation should aim to achieve prosperity of many, including employees, customers, suppliers and the community at large. The legal and administrative environment in India provides excellent scope for current practices in business. As a result, unless a management is committed to be honest and observe the principles of prosperity, the atmosphere is too tempting to observe good corporate governance in practice.

N R Narayanmurthy, who headed a committee on corporate governance rightly commented that corporate governance has become a necessity in today's world and it is no more a luxury. There is a gap between the perception and the practice of corporate governance. Feudal mindset, manifold regulations, lack of concern for society, a sense of insecurity and greed are some of the reasons for it, he says.

Due to the nature of corporate governance, it cannot be exactly defined. However, some definitions given by experts can help us understand the concept better.

The World Bank defines corporate governance as, "The blend of law, regulation and appropriate voluntary private sector practices that enable the corporation to attract financial and human capital, perform efficiently and thereby perpetuate it by generating long term economic value for its shareholders, while respecting the interest of stakeholders and the society as a whole."

"Corporate governance is a system of structuring, operating and controlling a company with a view to achieve long-term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. When it is practiced under a well-laid out system, it leads to the building of a legal, commercial and institutional framework and demarcates the boundaries within which these functions are performed."

While most organizations are interested in evaluating their corporate governance practices, they are quite ignorant as to how to do it (Garrat, 2003). Thus, the very basis for failure of corporate governance is formed. A partial solution to this was provided by making people, especially young managers, aware of the concept of corporate governance by introducing it as a part of B-school curriculum. Thus, the major responsibility lies on the shoulders of academicians who are considered as real intellectuals in imparting the concept of corporate governance in the minds of young professionals.

Thus, our research, focuses on studying the perception of academicians regarding reasons for the failure of corporate governance, as the correctness of the knowledge they are imparting to budding managers will depend on their perception about the whole concept.

Literature Review

In the words of Wolfensohn (1999) ,"corporate governance is about promoting corporate fairness, transparency and accountability". Furthermore, OECD defines corporate governance as, "corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure of a firm specifies the distribution of rights and responsibilities among different stakeholders in the corporation, such as, the board, managers, shareholders and others, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides mechanism through which the company's objectives are set and the means of attaining those objectives and monitoring performance" (OECD, April 1999).

Some of the experts view corporate governance as managing the relationship among various corporate stakeholders. Coffee (1999), studied that even at the level of the largest firms, corporate ownership structure tends to be highly concentrated.

Walter (2006) has pointed out lack of diversity of the board of directors and potential shareholders as one of the problems. Working in the same direction Kiel and Nicholson (2005) point out lack of proper control mechanisms and ethical standards among corporates.

Black *et al*. (2002) found that financial performance can be better with corporate governance and poor with poor corporate governance. Jensen and Meckling (1976) and Fama and Jensen (1983) also support the findings. Their report suggests that corporate governance helps owners exert control over corporate affairs. Through corporate governance, they get commanding positions to manage corporate insiders and managers.

While good corporate governance in Indian organizations like ICICI and HDFC have been examined and listed (Bhat and Kumar, 2008), say that the Satyam fiasco has opened it all up. Poor corporate governance has been the bane of Indian industry and the erosion of investor confidence, and it is now clear that certain key IT, media and entertainment scripts are being brazenly manipulated on the stock exchanges (Chemical Business, 2002).

Kripalani and Hamm (2009) in their study state that Satyam shows how a state of poor governance can lead to disaster and India has been witnessing many in the recent years. Since 2003, shareholders have lost some $2 bn from scandals and bad governance, this happened before Satyam. Range and Lubin (2009) say that despite the exposure India has to international standards, corporate ethics and accounting practices have been poor.

Some researchers have been optimistic in their approach. Chakrabarti *et al*. (2008) claims that the Indian corporate governance system has both supported and held back India's ascent to the top ranks of the world's economies. Still, Indian corporate governance has taken major steps toward becoming a system capable of inspiring confidence. Rajagopalan and Zhang (2008) have also highlighted several reasons for failure of corporate governance in India and China.

Denis and McConnell (2003) argue in their paper that, to overcome problems in corporate governance, different mechanisms can be applied. These mechanisms can be internal or external (audit committee).

Another way to overcome the problems of corporate governance is to develop correct understanding of the principles of corporate governance among budding managers which is the basic responsibility of academicians.

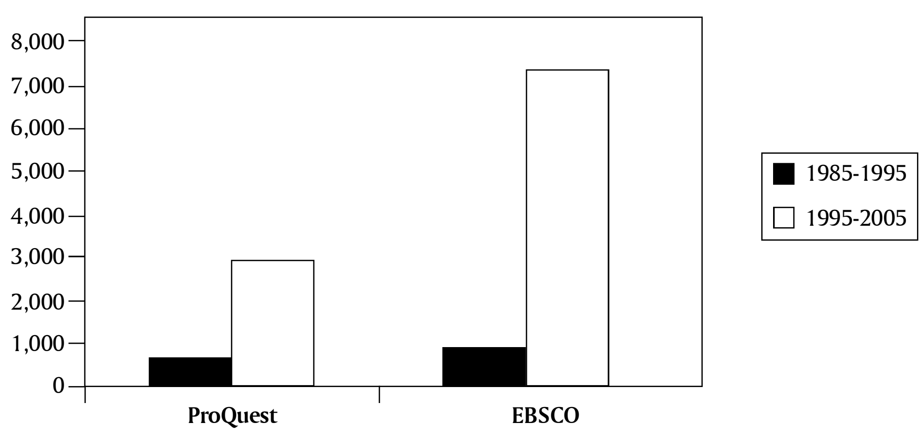
All the discussion on corporate governance in the past decade suggests that a universally accepted definition might yet emerge (Cheffins, 1999). Kaufman and Englander (2005) say that 'governance' can be subjective and descriptive as team, resource (Mayer, 2006), firm (Monks and Minnow, 2003), policy (Clarkham, 1998; and Griffiths and Zammuto, 2005), market (Witherell, 2002; and Sasseen and Weber, 2006) and nation (Macdonald, 2000; and Griffiths and Zammunto, 2005) using a multiplicity of theoretical perspectives (Mallin, 2004). Cheffins (1999) says corporate governance does not have dominance in any one subject area, but it has implications for law, finance and accounting, general business, leadership, entrepreneurship, etc. Corporate governance has a cross cutting nature.

A small search in databases like ProQuest and EBSCO (Figure 1) also tell us about the rising interest in corporate governance today. Where there were only 207-434 articles in the period 1985-1995, there are 2418-7299 articles from 1996-2006. A reputed journal of the stature of *Academy of Management Journal* also published 40 scholarly papers between 1996-2006, whereas only 10 during 1986-1995. Most of these papers mention perceptions of declining trust as a central issue in corporate governance today.

Turning to practitioner orientation, the *Harvard Business Review* case study database counts 62 cases on corporate governance in the period 1985-1995, while the decade 1996-2006 found 253 cases, suggesting significantly increased practitioner interest in the subject.

We, as academicians, also felt a responsibility to understand the views of our peers on the concept and hence, our paper focuses on academician's perception on the reasons for failure of corporate governance.

Figure 1: Increase in Scholarly and Peer Reviewed Governance Papers in ProQuest and EBSCO



Research Objective

The objective of the research is to study the perception of academicians regarding the reasons for failure of corporate governance in India. After doing extensive literature review, four main reasons for failure of corporate governance were identified namely: incentive, external monitoring system, internal control and leadership. Keeping in mind the above reasons for failure of corporate governance, the paper focuses on the following research objectives:

- To study the academician's perception regarding the significance and extent to which the four factors namely: incentives, poor external monitoring system, internal control and ineffective top leadership are responsible for failure of corporate governance.
- To identify any other reason for failure of corporate governance in India.
- To identify the significance and the extent of various factors responsible for poor internal control.
- To identify the significance and the extent of various factors responsible for proper performance evaluation system.
- To identify the significance and the extent of various factors responsible for good incentive scheme.
- To identify the significance and the extent of various factors responsible for good effective external monitoring system.
- To identify the significance and the extent of various factors responsible for effective top leadership.

Research Question

What is the perception of academicians regarding the reasons for failure of corporate governance?

Research Methodology

The methodology of study explains the systematic way of finding answers to pre-determined questions. Moreover, this provides clear path to accomplish and achieve a clear solution for the problem stated. The reliability, strength and accuracy of the study mainly depends on the methodology.

Methodology shall be considered as the methods used in this study in selecting samples, sample size, data collection and various tools for data analysis and interpretation. The present study is based on empirical investigation and is analytical in nature, including field survey. The data collected has been analyzed and tabulated in suitable forms, keeping in view the objectives of the study. To conduct the study, a questionnaire was formulated on all parameters detailed in the objectives.

Sample Size

The opinions and attitudes from 81 academicians belonging to the management fields were obtained. These people spanned across Delhi and the National Captial Region (NCR). All of them had experience in teaching corporate governance or had research interests related to corporate governance.

Statistical Tools Used for Data Analysis

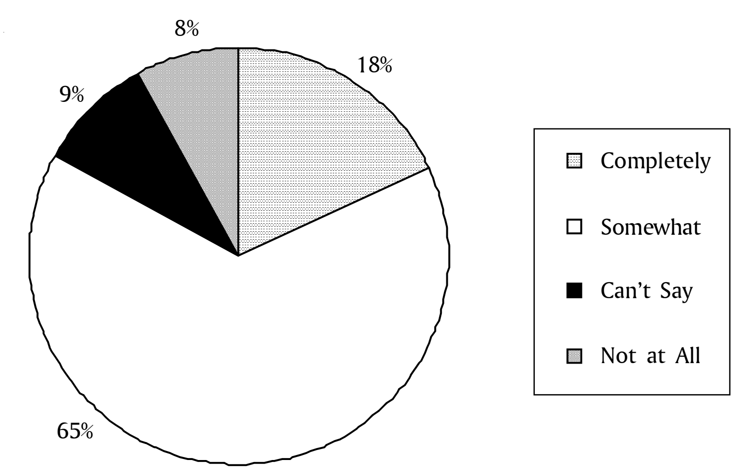
- Friedman test is used to test the extent to which these factors (lack of incentives, poor external monitoring system, internal control and ineffective top leadership) are responsible for the failure of corporate governance.
- To rank the various factors responsible for poor internal control, lack of incentives, poor external monitoring system and ineffective top leadership, Friedman test is used.

Results and Analysis

Factors were ranked on a 1-4 scale for question 4 and 1-5 for questions 5 to 9, where 1 was the least important factor and 5 was the most important factor. Total number of respondents was 81 and except 1, all respondents were aware of the concept of corporate governance. Out of the total, 4 respondents felt that corporate governance has been a total success. While majority of people (55) felt the concept of corporate governance was practical and appealing, most of them feel it has been a failure.

Out of the total, 18% respondents were of the view that corporate governance in India is a complete failure, while 65% feel it was somewhat a failure. Only 9% respondents were unsure (Figure 2).

Figure 2: Corporate Governance Failure in India



Failure of Corporate Governance

Through pilot study, we have identified four factors that are responsible for the failure of corporate governance mechanism in the Indian companies in the perception of academics. Further, survey revealed these results.

The significance (0.000) is less than (0.05). This shows that all the above factors (lack of incentives, poor external monitoring system, internal control, ineffective top leadership) are identified as significant reasons for failure of corporate governance.

The ranks given to the four factors are not the same. The most important factor is lack of incentives (mean rank 3.17) followed by poor external monitoring system (mean rank 3.12), whereas internal control (mean rank 1.19) and ineffective top leadership (mean rank 1.72) are not much responsible for failure of corporate governance as compare to first two factors (Table 1a and b).

Now, we analyzed the causes for each and every reason identified for the failure of corporate governance in Indian companies in the perception of academics.

Internal Control

Through the pilot study we have identified four factors that are responsible for the failure of internal control in the Indian companies in the perception of academics. The survey revealed these results.

Table 2b indicates the reasons responsible for poor internal control.

Table 1a: Ranks

	Mean Rank
Lack of incentives	3.17
Poor external monitoring system	3.12
Internal control	1.99
Ineffective top leadership	1.72

Note: A Friedman Test.

Table 1b: Test Statistics

N	81
Chi-Square	83.519
Df	3
Asymp. Sig.	0.000

The significance (0.000) is less than (0.05), hence all the factors (improper documentation of authority, ineffective communication to staff about policies and procedures, lack of independent and internal audit, unawareness of corporate governance policy in organization and insufficient security of records) are responsible for poor internal control.

The ranking implies (see Table 2a) that insufficient security of records (mean rank 3.51) along with lack of internal audit (mean rank 3.28) and improper documentation of authority (mean rank 3.02) are the biggest concerns for poor internal control.

Table 2a: Ranks

	Mean Rank
Predefined performance target	2.84
Monitoring performance on an ongoing basis	2.78
Proper collection and representation of performance data	3.00
Transparency in performance evaluation	2.68
Review of performance indicators	3.70

Note: A Friedman Test.

Performance Evaluation System

As far as reasons responsible for proper performance evaluation system are considered, academicians perceive that all the factors (predefined performance targets, monitoring performance on an ongoing

Table 2b: Test Statistics

N	81
Chi-Square	21.817
Df	4
Asymp. Sig.	0.000

basis, proper collection and representation of performance data, transparency in performance evaluation and review of performance indicators) are significant. This is reflected as the significance (0.000) is less than (0.05) (See Table 3b).

Academicians considered review of performance indicators (Table 3a) (mean rank 3.70) as most important factor for proper performance evaluation system. Proper collection and representation of performance data (mean rank 3.00) is also one of the important factors.

Table 3a: Ranks

	Mean Rank
Predefined performance target	2.84
Monitoring performance on an ongoing basis	2.78
Proper collection and representation of performance data	3.00
Transparency in performance evaluation	2.68
Review of performance indicators	3.70

Note: A Friedman Test.

The result indicates that academician's ranked pre-defined performance target (mean rank 2.84), monitoring performance on an ongoing basis (mean rank 2.78) and transparency in performance evaluation (mean rank 2.68) is lower as compare to the other factors.

Table 3b: Test Statistics

N	81
Chi-Square	21.817
Df	4
Asymp. Sig.	0.000

Incentive Scheme

Table 4a and b reflects the true picture of the factors responsible for good incentives schemes. They considered seniority-based (mean rank 3.02), market correction (mean rank 3.02) as well as time-based (mean rank 3.09) important, but the incentives based on personal relations (mean rank 3.75) ranks the highest. The reason might be the honest views of the academicians as most of them are working in privately-owned institutions.

Table 4a: Ranks

	Mean Rank
Performance-based	2.11
Seniority-based	3.02
Personal relation	3.75
Time-based	3.09
Market correction-based	3.02

Note: A Friedman Test.

External Monitoring System

Table 4b: Test Statistics	
N	81
Chi-Square	44.257
Df	4
Asymp. Sig.	0.000

It is interesting to note that the professional relationship with external auditor and statutory inspector (mean rank 2.95) was seen as one of the most important reasons for good effective external monitoring system. Factors like proper documentation and record keeping (mean rank 2.63) holding quality accreditation (mean rank 2.47) and awareness of relevant statutory bodies (mean rank 1.95) followed them (Table 5a and b).

Table 5a: Ranks	
	Mean Rank
Awareness of relevant statutory regulation	1.95
Proper documentation and record keeping	2.63
Holding quality accreditation	2.47
Professional relationship with its external auditors and statutory inspectors	2.95
Note: A Friedman Test.	

Top Leadership

Table 5b: Test Statistics	
N	81
Chi-Square	25.400
Df	4
Asymp. Sig.	0.000

The study of the factors responsible for effective top leadership showed the shortage of independent directors as one of the most important reasons (mean rank 3.56). Furthermore, the respondents considered power of dominant shareholders (mean rank 3.35) and clear agreement among partners (mean rank 3.03) as important for effective top leadership (Table 6a and b).

Table 6a: Ranks	
	Mean Rank
Power of dominant shareholders	3.35
Shortage of independent directors	3.56
Clear agreement among partners	3.03
Ranks clarity about role and responsibility among leaders	2.23
Knowledge about corporate governance issues	2.83
Note: A Friedman Test.	

Table 6b: Test Statistics	
N	81
Chi-Square	25.400
Df	4
Asymp. Sig.	0.000

Other Observations

Some academicians offered different reasons for failure of corporate governance. They are grouped together as follows:

- **Transparency**: While recording, executing or information transfer, the true value and truth needs to be transmitted. Lack of this transparency leads to failure of corporate governance.
- **Selflessness**: Unless a top manager or members of management or executive board adopt selflessness, true governance is not possible. The companies are being managed based on individuality of chairman without caring for the overall legality and management philosophy.
- **Unity of Command, Delegation of Authority and Accountability**: It plays a very vital role in contributing towards failure of corporate governance. The given structure is not designed to suit the requirement of Indian business houses which are still governed by interpersonal relations, rather than professional concerns.
- **Ethical Approach**: In corporate governance and administration, whether it is governance authority or private, unethical approach is another reason for failure of corporate governance. Some of the malpractices followed are manipulation of data and failure to distinguish between personal and corporate governance.
- **Lack of Awareness**: Lack of information and knowledge about topic among common people and unawareness of employees as well as policymaker and government also contribute towards the failure of corporate governance.
- **Traditional Debauchery, Nepotism and Red-tapism:** These are some of the other reasons responsible for withdrawal of trust for any kind of governance.
- **Lack of Mandatory Corporate Governance Review and Publication**: A consolidated performance report by ministry of either corporate affairs or SEBI indicating a company's performance on several factors such as financial disclosures, employee benefit, etc., also leads to failure of corporate governance.

Conclusion

The result and conclusion is the most important part of any research work. After analyzing the data, we come to the conclusion that academician's perceived lack of incentive is a major reason for failure of corporate governance as compared to poor external monitoring systems, internal control and ineffective top leadership.

Furthermore, insufficient security of record was considered as the most important reason for poor internal control. Academicians perceived personal relations as the most important factor when it comes to incentives and for good effective external monitoring system they placed professional relationship with its external auditors and statutory inspectors as most significant. For effective top leadership, the shortage of independent directors, power of dominant shareholders and clear agreement among the partners made a very minute difference in their level or ranking.

Thus, as India is passing through a correctional phase, due to long drawn oppression and resorting to quota and license *raj*, it is the corporate citizens who find it difficult to see everything transparent and documented. Also, civil society in India is still not dominant. Accordingly, corporate giants escape their imperativeness in terms of duties and responsibilities to the stakeholders, which ultimately results in failure of corporate governance. Regulatory bodies and other government watchdogs are not that vigilant.

Apart from this, corporate greed plays an important role in the downfall of corporate governance. Despite the stringent regulatory system of governance with a plethora of codes and laws, the cases of failure are increasing at a fast pace. The current need is for corporate governance with conscience. It states that the business affairs should not be guided solely on the basis of mere financial goals, but should take into consideration spiritual goals as well.

It's all about ethics and ethics (or lack of it) is already firmly ingrained inside a person by the time they are in corporate life. As a result, ethics must be taught in school (maybe 11th and 12th), when the students are learning the ways of life and when they can appreciate it. This is the foundation of corporate governance. As the student enters college life, a formal course on corporate governance must be a compulsory part of every graduation (BBA, BE, B.Sc., B.Com., etc.). With such a strong foundation and exposure, it is easier to implement when these students ultimately join corporate life. Thus, the role of academicians will be justified. ❑

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Annexure

Questionnaire

This survey is undertaken as a part of Academic Research Project on "Corporate Governance Failure in India: A Study of Academicians Perception".

Kindly read the instructions below and fill-up the form.

Instructions

- Please read the questions carefully before answering them.
- Kindly tick your choice from the options given against the questions.
- All the information acquired shall be kept confidential.

1. Are you aware of the concept of corporate governance?

   (a) Yes (b) No

2. If yes, do you find the concept practical and appealing?

   (a) Yes (b) No (c) Somewhat

3. According to you has the concept been a failure in India?

   (a) Completely (b) Somewhat (c) Can't say

   (d) Not at all

4. Please rank the following for the failure of corporate governance (on a scale of 1-4 in ascending order):

Factors	Ranking
Lack of incentives	
Poor external monitory system	
Internal Control	
Ineffective Top leadership	

5. Please indicate the extent/significance (on a scale of 1-5 in ascending order) responsible for poor internal control.

Factors	Ranking
Improper documentation of authority	
Ineffective communication to staff about policies and procedures	
Lack of independent internal audit	
Unawareness of corporate governance policy in the organization	
Insufficient security of records	

Annexure (Cont.)

6. Rank the following factors (on a scale of 1-5 in ascending order) responsible for proper performance evaluation system:

Factors	Ranking
Predefined performance targets	
Monitoring performance on an ongoing basis	
Proper collection and representation of performance data	
Transparency in performance evaluation	
Review of performance indicators	

7. Rank the following factors (on a scale of 1-5 in ascending order) responsible for good incentive scheme:

Factors	Ranking
Performance-based	
Seniority-based (designation)	
Personal relation	
Time-based	
Market correction-based	

8. Rank the following factors (on a scale of 1-5 in ascending order) responsible for good effective external monitoring system:

Factors	Ranking
Awareness of relevant statutory regulation	
Proper documentation and record keeping	
Holding quality accreditation, e.g., ISO	

9. Rank the following factors (on a scale of 1-5 in ascending order) in order of significance for effective top leadership:

Factors	Ranking
Power of dominant shareholders	
Shortage of independent Directors	
Clear agreement (Legal and Financial issues) among the partners	
Clarity about roles and responsibility among top leaders	
Knowledge of Corporate Governance issues	

10. Please suggest any other reason if any for failure of Corporate Governance in India.

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