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A STUDY OF DIFFERENCES IN STATUTORY CORPORATE GOVERNANCE BETWEEN LARGE SCALE AND MICRO SMALL MEDIUM ENTERPRISES SECTOR INDUSTRIES

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Abstract - This research paper aims to study, whether there are any deviations in statutory norms of corporate governance for large scale corporation and medium scale corporations or not? And if at all they are, what are the differences in the statutory corporate governance between in large scale corporations and Micro Small Medium Enterprises Sector (MSMEs, hereafter).

Recruits of MSMEs scale industries have usually been view as outsider to the corporation. Position and responsibilities of workers within the small scale industry infrequently occupies much space, and worry, in Indian corporate laws; which is constrained to the relationship between directors and workers for MSME sector, however, there have been important reforms in the area of corporate governance in MSME Sector too for example like, it provide incentives for enhanced standards of corporate social responsibility and conduct.

Where As in Large Scale Industry has follows the Clause 49 of Indian Company Act 2013 by the Listing Agreement shall be applicable to all companies whose equity share ate listed on a recognizes stock exchange with the principles like (a) The Rights of Shareholders (b) Role of stakeholder in Corporate Governance (c) Disclosure and transparency (d) Audit Committee and many more.

This study examines ways in which the wellbeing of the employee could be included within the enterprise. Then it discusses the position of the employee might be treated differently through the lens of corporate and labor law principles.

In this conceptual research paper authors have attempted to understand the scope, applicability, commonality and differences of corporate governance in MSME Sector and in large scale corporations. Whether there are any special considerations given to the MSME sector or not? And if at all they are what are the consequences of the same has been attempted to understand here.

KEY WORDS: Corporate Governance in MSMEs, Corporate Governance in Large Scale Industry, Clause 49.

I. INTRODUCTION

a) Corporate Governance for MSMEs: - Governance frameworks determine the capacity of small firms to raise capital. Financial markets are faced with the problem of information asymmetry i.e. the difficulty of evaluating the quality of the firm's management framework and protection against moral hazards; hence corporate governance is important. It provides resources to the firms and also helps them to organize these resources. Other key benefits to MSMEs include better and stronger system of internal control and accountability, transparency, strategic vision through participation of outside experts on the board, owner to focus more on strategic directions and expansion of business than day to day operations and ability to attract better managers. Corporate governance can therefore be viewed as a mechanism to mobilize and combine resources and competences.

It concerns the respective roles of the shareholders as owners and the managers (the directors and other officers). It is about setting rules and procedures as to how the company is run. It is also about putting checks and balances in place to prevent abuses of authority and ensure the integrity of financial results

b) **Corporate Governance for Large scale industry :-** Corporate Governance for the company there should be

c) Disclosures likes, a) all elements of remuneration package such as salary,

d) benefits, bonuses, stock options, pension, etc., of all the directors; b) details of fixed component and performance linked incentives along with the performance criteria; c) service contracts, notice period, severance fees; d) stock option details, if any, and whether the same has been issued at a discount as well as the period over which accrued and over which exercisable.

e) **What is Corporate Governance: -** Corporate Governance broadly refers to the rules, processes or laws by which businesses are operated, regulated and controlled. The terms can refer to internal factors defined by the management, stockholder or the constitution of a corporation, as well as to external forces such as consumer groups, clients, society environment and government regulations.

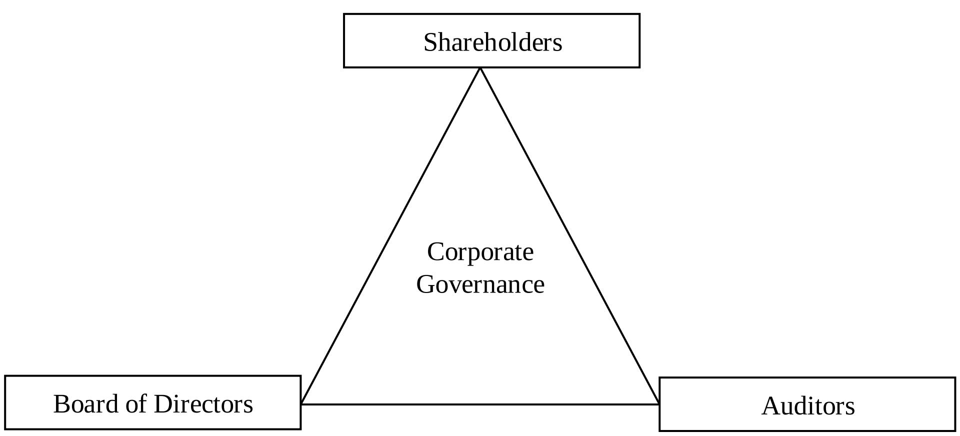

Figure 1:- A Typical Corporate Governance Scheme in an Organization

II. OBJECTIVES OF STUDY

a) Whether there are any deviations in statutory norms of corporate governance for large scale corporation and medium scale corporations or not

b) What are the differences in the statutory corporate governance between in large scale corporations and MSMEs

c) To understand the important, Challenge, issue and differences of corporate governance in MSME Sector and in large scale corporations.

III. RESEARCH METHODOLOGY

Research Objective

Conceptual understand in difference of statutory norms of corporate governance for large scale corporation and MSME.

Research Design

- Exploratory Conceptual Study through legal documents, literate on practices, financial reports and journals.
- Since it is a conceptual exploratory research .we are not bring as Hypothesis.

DIFFERENT BETWEEN OF CORPORATE GOVERNANCE IN MSMEs SECTOR INDUSTRY & LARGE SCALE INDUSTRY

Factors	MSMEs	Large Scale Industry
Describe the Business / Organization	As there MSMEs business are small in financial and size also, so the owner or promoted will make their owner descried and describe by them self only	This is a crucial area of clarification that traditional Corporate Governance codes ignore. It provides foundations for decisions and governance. Clarify your corporation/organization type, ownership, structure, leadership, etc. A public quoted corporation is very different to a charitable trust, or a social enterprise. The nature and purpose of the organization greatly influences its priorities and considerations in Corporate Governance.
Board of Directors	Board of director roles will be manage by the owner or the promoted because there is high-equity ownership on the part of managers and board members;	Define appropriately the roles (including a neutral chairperson), authority, processes, obligations, controls, contracts, rewards and controls of directors, especially so that personal needs do not conflict with organizational responsibilities.
Non-Executive Directors	There will not be requirement of the non-executive directors in the MSMEs	Non-executive directors are crucial in moderating company boards, so these roles and responsibilities must be clarified appropriately.
Reporting, Auditing, Controls and Transparency	Reporting and auditing will be according to government guidelines to the auditing like ICAI and fully controls of the promoted in the administration.	This concerns the administration and transparency of Corporate Governance, especially in financial reporting and auditing.

Responsibilities of Owners / Shareholders / Trustees	Responsibilities of owner toward their employer for the salary and wages to the worker according to the government norms.	This is usually a separate code for the responsibilities of institutional investors of major public corporations. It extends to trustees of smaller situations.
Competence	Owner/promoted itself play the role of the corporate governance in the business / organization	Everyone responsible for Corporate Governance must be sufficiently competent to fulfill the role. Systems must ensure this is so, or corrected.
Departmental Corporate Governance	Owner/promoted are responsible for the departmental corporate governance. Department head and staff are responsible for operational duties which adhere to corporate governance standards. This especially concerns delegated responsibilities and decision-making	Directors are responsible for Departmental Corporate Governance. Department heads and staff are responsible for operational duties which adhere to Corporate Governance standards. This especially concerns delegated responsibilities and decision-making.
Ethical and Moral Standards	Standards of ethics and morality exist separately to laws and regulations. They must be established, stated, followed and promoted by the owner.	Standards of ethics and morality exist separately to laws and regulations. They must be established, stated, followed and promoted by the directors.

IV. IMPORTANCE OF CORPORATE GOVERNANCE IN MSMEs SECTOR INDUSTRY

Possibly, corporate governance has greater role to play in responding to various challenges faced by the MSMEs in developing nations.

a) Sound governance practices lead to improved internal control systems, lesser probability of frauds, better accountability and higher profitability.
b) Good Corporate Governance practices helps in reducing conflicts between business owners and management.
c) Raising capital becomes easier for MSMEs by implementing good corporate governance practices.
d) MSMEs implementing corporate governance allow the financial markets, which face the problem of irregularity of information, to overcome the difficulty of evaluating quality of firm's management and protection against ethical hazards.

V. IMPORTANCE OF CORPORATE GOVERNANCE IN LARGE SCALE INDUSTRY

Corporate governance has wide ramification and extends beyond good corporate performance and financial property though these are no doubt essential. In India, corporate governance has been under scrutiny and is an issue that has gained widespread importance.

a) Investors and shareholder of a corporate company need protection for their investment due to lack of adequate standards of financial reporting and accountability. It has been noticed in india that companies raised capital from the market at high valuation of their shares by projecting wrong picture of the company's performance and profitability.
b) The importance of good corporate governance lies in the face that it will enable the corporate firms to 1) attract capital and 2) perform efficiently. This

will help in winning investors confidence. Investors will be willing to invest in the companies with a good record of corporate governance.

c) Indispensable for healthy and vibrant stock market. An important advantage of strong corporate governance is that it is indispensable for a vibrant stock market. A healthy stock market is an important instrument for investors' protection. A bane of stock market is insider trading. Insider trading means trading of share of a company by insides such directors, managers and other employees of the company on the basis of information which is not known to outsiders of the company
d) International flows of capital enable companies to access financing from a large pool of investors. If countries are to reap the full benefits of the global capital market, and if they are to attract long-term capital, corporate governance arrangements must be credible and well understood across borders. The large inflows of foreign investment will contribute immensely to economic growth.

VI. CHALLENGE OF CORPORATE GOVERNANCE IN MSMEs SECTOR INDUSTRY

a) MSME sector plays a vital role in giving a boost to the overall GDP but it is still overlooked by the government, corporate sector and the financial sector. The commendable efforts and support of this sector do not receive the required attention
b) Dearth of easy finance and credit instruments
c) Limiting regulatory polices
d) Unavailability of modern, affordable technology Lack of basic infrastructure facilities
e) Absence of exclusive marketing platforms and distribution networks
f) Inflexible labour laws and availability of affordable skilled labour
g) Availability of basic infrastructure including Power, Water and Waste Management is a challenge for enterprises across all cities
h) 71% SMEs are not aware of the government's Credit Guarantee Scheme for access to collateral free credit from Banks
i) All SMEs echo the need for an exclusive regulatory agency
j) When enterprises were questioned about government schemes that are in implementation today, the answer was that they were unaware of the same.
k) Only 11% SMEs are aware about government programs and grants to support marketing and supply chain networks.

VII. CHALLENGE OF CORPORATE GOVERNANCE IN LARGE SCALE INDUSTRY

a) Primarily, there is a level of confidence that is associated with a company that is known to have good corporate authority. The presence of an active group of independent directors on the board adds a great deal towards ensuring confidence in the market. Corporate governance is known to be one of the criteria
b) Unfortunately, corporate governance often becomes the centre of discussion only after the exposure of a large scam. The report of the Cadbury Committee on the financial aspects of corporate Governance in the U.K. has given rise to the debate of Corporate Governance in India. Need for corporate governance arises due to separation of management from the ownership. For the success of the firm, it needs to focus 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 time of the Arthshastra, the only difference being that instead of the CEO, there were kings and subjects. Today, corporate and shareholders replace them but the principles still remain same, unchanged i.e. good governance.

c) The 20th century witnessed the glossy side of the Indian Economy due to liberalization, globalization, and privatization. For the first time, the Indian economy was together with the world economy for product, capital and labor market. This resulted in a world of capitalization, corporate culture, and business ethics and was found important for the existence of corporations in the world market place. Several Indian companies such as Infosys, 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 the law has a great part to play in a 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 even repealed some laws in order that they don't act as barriers for these corporate bodies.

d) The judiciary has also helped in great way by solving the corporate disputes in a speedy manner. Corporate bodies have their aims, values, mottos, ethics and principles etc which guide them. Big and small organizations publish their annual reports which reflect their achievements, failures, their profit and loss, their current position in the market etc. A few companies have also shown an awareness of issues such as environment protection, social responsibilities and social development and have deeply committed themselves to it. An example of such a company is Deepak Fertilizers and Petrochemicals Corporation Limited which bagged the 2nd Runners up award for Corporate Social Responsibility by Business World in 2005.

e) Under the present scenario, stakeholders are given more importance as contrasted 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, for which they work for future success. They take risk and adopt innovative ideas, have futuristic goals, motto, and future objectives to achieve. With increase in interdependence 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.

f) 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 uplift 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.

VIII. ISSUES IN CORPORATE GOVERNANCE

Distinguishing the roles of board and management

The constitutions of many companies stress and underline that business is to managed ‘by or under the direction of’ the board. In such a practice, the responsibility for managing the business is delegated by the board to the CEO, who in turn delegate the responsibility to other senior executive.

a) Select, decide the remuneration and evaluate on a regular basis, and if necessary, change the CEO;
b) Oversee (not directly, but indirectly) the conduct of the company’s business to evaluate whether or not it is being correctly managed
c) Review and, where necessary, approve the company’s financial objectives and major corporate plans and objectives
d) Provide advice and counsel to top management

e) Select and recommend candidates to shareholders for electing them to the board of directors
f) Review the adequacy of system to comply with all applicable laws and regulations
g) Review any other function required by law to be performed

Composition of the board and related issues
The board of directors is a "committee elected by the shareholder of a limited company to be responsible for the policy of the company. Sometimes, full-time functional directors, each being responsible for some particular branch of the firm's work"

The board of directors of a company must have a optimum combination of executive and non executive directors with not less than 50 per cent of the board comprising of non-executive. The number of independent directors should be at least one-third in case the company has a non-executive chairman and at least half of the board in case the company has an executive chairman.

Separation of the roles of the CEO and Chairperson
The composition of the board is a major issue in corporate governance as the board acts as a link between the shareholders and the management and its decisions affect the performance of the company. Professionalization of family companies should commence with the composition of the board. All committees that studied governance practices all over the world starting with the Cadbury committee have suggested various improvements in the composition of board of companies.

Appointment to the board and directors Re-election
As per the company law, shareholder elects directors to the board. However, shareholders are a legion in large companies and also scattered and to have them together to elect the directors will be expensive and time-consuming. Therefore, in actual practice, in most cases, the board or its specially constituted committee selects and appoints the prospective director and gets the person formally "elected" by the shareholders at the ensuing annual general body meeting.

Directors and executives remuneration
This is one of the mixed and vexed issues of corporate governance that first came to the centre-stage during the massive corporate failures in the United States between 2000 and 2002 and later reappeared with renewed vigour during the Wall Street crisis of 2008. Executive compensation has also in recent times becomes the most visible and politically sensitive issue relating to corporate governance.

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