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# Corporate Governance and Industrial Relations for a Sustainable Growth of the Corporate Sector

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## ABSTRACT

*This article offers a focused and complex interpretation of the Indian experience by comparing and contrasting the implications of various government regulatory changes in the Corporate Governance and Industrial Relations. The corporate Governance and Industrial Relations are interrelated and they go together in making an effective Organisation.*

*The principal role of Industrial relations is the harmonization and reconciliation of conflicting interests. The corporate governance is a multi faceted subject. It is the set of processes, customs, policies and institutions through which the corporate are directed, administered or controlled.*

*An important theme of the Corporate Governance and Industrial Relations are to ensure the accountability of certain individuals in an organization and foster the sustainable growth of the corporate sector.*

*The guidelines of Indian Corporate Governance are comprehensive. These cover Board member criteria and directors', lead directors' responsibilities, management succession planning, selection and evaluation of CEO, CFO, director's compensation, assessment of board performance and more. This article also focuses on other internal aspects such as the interactions of industrial relations and the corporate governance of which has a direct bearing on the performance of the Board as a whole, who are ultimately answerable to the share holders and the stake holders.*

*(This paper is based on the Ph.D. thesis under preparation by the Author)*

## INTRODUCTION

The Corporate Governance and Industrial Relations are used to express the nature of relationship between the employer and the employee in an industry or an organization. Industrial relations can be considered to be good when there exists and emanates a willing cooperation from employees and in turn the employers acknowledge the same. Adoption of good corporate governance practices distinguishes a company from ordinary companies. The companies who adopt "vivid and distinct governance in the corporates" practices stands out from others. The growth of technology and heavy investment in capital oriented projects

resulted in the problem of peaceful industrial relations to a certain extent. The labour-employer relationships have become more complex. Some factors have led to poor industrial relations and other conditions have generated good industrial relations resulting into more employment opportunities. Hence, it is necessary to

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understand the various factors which contribute to this unrest so that they can be eliminated to attain industrial harmony.

### **SIGNIFICANCE OF THE STUDY**

During the 1960s, India achieved the planned growth, infrastructure development, economic diversification in both agriculture and industry and some improvement in social services was also evidenced. With the enactment of the Industrial Policy Resolutions (IPR) in 1948 and its subsequent amendments in 1973 and major changes effected in 1992, Government regulation, plan allocations, Development policies have reflected the changing nature, role and orientation of the state which in turn bettered the industrial relations in the corporate environment.

Though the changing nature of the policies of the state has obviously influenced the state regulation, yet certain features are common to all phases of development after independence. Early planning on economic development reflected the interests and priorities of the Industries in the Government and Public Sector. The government was committed to defend interests in technological development in India and also enabled the Private Sector businesses to consolidate and strengthen their positions. The state also encouraged import-substitution by offering incentives, providing infrastructure, and other supportive economic measures. After liberalisation, the private corporate growth has been encouraged through supporting state policies.

### **OBJECTIVES OF THE STUDY :**

The main object of the study is to compare and contrast the similarities and important requirements of the Corporate Governance and Industrial Relations and to carry out "A study of the Corporate Governance as a System" develop to a suitable system of control and suggest a suitable mechanism for the good corporate governance and industrial relations. Some of the objectives are highlighted below :

- 1) To understand the requirement of the Corporate Governance and industrial relations as one of the important subjects of the modern technologically developed industrial society.

- 2) To establish a significant relationship between the Management, workers and trade unions.
- 3) To encourage system of Workers participation in Management
- 4) To build a Good Corporate Governance and cordial industrial relations for a better production and usage of manpower, materials and machines to the optimum.
- 5) To have an understanding about the different functional activities in the organization and to develop a functional model for Industrial relations.
- 6) To understand the impact of industrial relations on the corporate governance.

### **SOURCE OF DATA :**

The design of the collection of the data was as follows. The required data for the preparation of this research article has been collected from the review of literatures. A schedule was also prepared to collect the data while talking to the people working at the operational level. The standing orders of different companies, brochures, journals and magazines published by reputed publishers, Annual reports and annual returns filed by corporate such as Wipro, NIIT, Corporation Bank, ICSA(I) Ltd, Neuland Laboratories, Dr Reddy Labs, La Multi Info systems Ltd relating to Mission and Vision Statements, Industrial relations and Management & Discussion Analysis were used for the collection of data through secondary sources. Also the results of primary source of data collected for Ph.D. thesis are used for deduction and analysis. The author chosen not to present detailed processing of data due to limitation of space.

### **RESEARCH AND SAMPLING APPROACH :**

Primary data were collected on the selected companies in the Software, manufacturing and non manufacturing industries. The structured questionnaire were handed over for filling up and interviewing different class of people. The intelligent sampling process was chosen since it was not feasible to adopt the population survey. The paper has not provided detailed methods of processing data.

## ROLE OF GOVERNMENT IN CORPORATE GOVERNANCE AND INDUSTRIAL RELATIONS

In a welfare state like India, the government legislates the various acts through Parliament or through the State Legislatures. The provisions of these Acts are implemented through proper administrative mechanism. These legislations evolved over the years, requires continuous nurturing and adapting to the dynamic process of environment. The model for the industrial relations and the corporate governance are based on a system of trust and confidence to operate on the assumption that the share holders/ owners/employers to provide oversight. The executives are professionally deployed by the company for its long term sustainability and shareholders values.

### STUDY OF CG & IR AS A SYSTEM

The Corporate Governance and Industrial Relations (CG & IR) are to be addressed as a system or a special technique to re-engineer the existing governance system in an organization and to identify suitable measures to improve its accountability. The importance of these can be assessed from the following remarks.

*"Take care of the Corporate Governance and Industrial Relations (CG&IR) systems – "Corporate Governance and Industrial Relations (CG&IR)systems will take care of you"*

*"In absence of the CG&IR systems  
You are unconscious that you are unconscious"*

*"Start implementing the Corporate Governance and Industrial Relations (CG&IR) systems" "You will become conscious how much unconscious you were"*

*"Once the Corporate Governance and Industrial Relations (CG&IR) systems are implemented  
You will be unconsciously conscious"*

The techniques involved in the corporate governance are to make an attempt to identify a number of different functional activities related to directly or indirectly production, service and undertake such activities exclusively required to raise funds for the growth of organization. The technique should help to identify various activities at different functional levels to capture information.

### TEN AREAS OF COMMON INTEREST IN CG AND IR

Sl No.	The Corporate Governance	The Industrial Relations
1	The Good corporate governance is the means to an end. The corporate can reach goals with success if they pursue the right means.	The Good industrial relations work for industrial peace, discipline and industrial democracy and strengthen the corporate sector.
2	The Corporate Governance mechanisms and structures are potentially important determinants for quality accounting and reporting.	The nature of the labour policy of the government influence the structure of the relationship.
3	The Board independence, board functioning and quality of the audit committee appears to be important governance indicators in explaining the quality across firms.	The Good industrial relations increase the morale of the workers and motivate the workers to work more, attain desired quality and become quality conscious across the firms.

4	The Corporate Governance is a set of structures that monitor company's operations and disclosure.	The Government plays a positive and constructive role in industrial relations in our country.
5	The modern corporate governance model is based on a system of trust and confidence of the Company.	The consultative machinery has been geared up at the plant and national level with the formation of committees like the tripartite Indian Labour Conference at the centre.
6	The Corporate Governance which until recently meant little to all but scholars and shareholders, has now become a greater concern and a subject of discussion in corporate board rooms, academic circles, Govt. and regulators round the globe.	The State along with the Corporate play an important part in regulating industrial relations in accordance with a nation's political doctrine, traditions, economic and social conditions of the country.
7	The response of the Government and regulators was swift to the challenges of the corporate delinquency in bringing the owners and the employees together.	Indian Government through its various acts on Industrial Relations plays a major role of fostering and promoting closer relationship between employers and employees.
8	The Corporate Governance is a useful tool for reporting on the sustainability of accounting for internal management and purports the boundaries of responsibility.	Workers union is a useful tool of Industrial relations which act as the spokesman of their grievances, difficulties and as custodian of their interests helps solve issues relating to internal management.
9	When things are brighter and economies are bold, CG norms reach centre stage of the corporate philosophy and culture.	Better working conditions if moved from the top management ensure good industrial relations rather than forced up by demands from below.
10	The system of the corporate governance works effectively when shareholders have a high level of confidence that their representatives are managing the affairs of the company in its best interests.	Corporate bodies will have to instill confidence in the representatives managing the affairs of the Company to establish control over such plants and units which are running at a loss or in which production has to be regulated in the public interest.

### INDUSTRIAL RELATIONS AND ITS IMPACT ON CORPORATE GOVERNANCE

Industrial relations are determined by institutional and economic factors which refers to the pattern and pace of labour legislations, the state policy relating to industry and labour, the extent and stage of development of trade unions and employer's organizations.

Economic factors include the nature of economic organization of the country, capital structure, the pattern of technology, the sources of demand and

supply in the labour market as well as the nature and composition of labour force etc.

Some instances of interaction of Industrial Relations and its impact on the Corporate Governance are narrated below :

1. The corporate Sector cannot stand alone, they are to interact with people, internal as well as external and general belief is that the corporate enterprise should be organized not only to maximize its profits but also to serve the interests of society as a whole. Hence, the interests of shareholders and people

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working in the organization do weigh equally as any other members of society.

2. The Share holders and stake holders including its employees look for some consistent value system. Hence, it is said what is good for shareholders, stake holders and employees is good for the development of corporations, and what is good for the corporations is good for the society. If this connection is established and maintained in a consistent manner, the shareholder/owner and employee bandwagon would be indeed attractive.
3. The practices in the case of both the public and private sector companies are almost similar. It is found that the companies having a good corporate governance and industrial relations practices have good culture and there by generates good image among the investors and public as a whole.
4. The Corporate Governance and Industrial Relations ethic rules differ from legal rules in as much as the former are not enforced by public accountability and authority where as the latter are. Legal rules become unnecessary when ethical rules are observed by businessmen.
5. Nearly 95 % of the Fortune 500 companies have ethical codes and the trend is visible in the corporate sector in India also regarding the corporate governance and industrial relations. The code of ethics describes the general value system of the organization with good industrial relations, defines the organization's purpose and provides guidelines for decision making.
6. In the past, it was assumed that Industrial relations and ethics was a matter of individual conscience. But the scenario has changed. Today many organizations are using managerial techniques that are designed to improve industrial relations.

## THE CHANGING POSITION

The Corporate Governance initiative in the case of public companies has gathered momentum since Bhopal Gas Tragedy and Enron to name a few. These are the after effects of not being keen to take initiative towards the Corporate Governance and complying with the laws on Industrial Relations by the Corporate Sector, the Public or Private Sectors, on developing and adhering to the principles of Industrial Relations in the past.

The need for Industrial Relations in the current period had begun gaining attention since 1970s. Historically, firms started highlighting their ethical stature since the late 1980s and early 1990s as the world witnessed serious economic and natural disasters because of unethical business practices.

The steady growth of the Indian economy in recent years has attracted global attention. The economic boom since the late 1990s was supported by some economic liberalization, the privatization and globalization drive added to the rapid growth. This encouraged for the state to go for deregulation and bring tremendous changes in the corporate India towards sustained growth and industrialization.

## GROWTH OF CORPORATE INDIA

The industrialists in the Private Sector welcomed the Industrial Policy changes effected by the Government of India. The transition of the Govt. policies from the state domination to state regulation helped expensation of the private sector to bring about industrial growth as well as the development of the private corporate in India.

The right attitude of the people in the helm of affairs and the industries, together made India even more attractive place for investment. These factors combined with favorable new tax incentives and declaration of EPZs resulted in a resurgence of export-oriented manufacturing largely under the auspices of foreign capital.

However, after 1991, the changing comparative costs and competitive advantages have reshaped the international business - including regional division of labor and involving new production, supply and marketing arrangements. Privatization also paved the way for the active governmental promotion of the



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stock market by bringing far fetching regulations on the bourses management. This measure propelled a harmonious relationship in the Industrial scenario.

However, Indian Economy has been experencing volatality in the stock market which calls for short and long term regulations by SEBI - the Capital Market regularator.

The rapid growth of the Indian economy in recent years more so from the 1990s attracted many general investors in the corporate sector and also has attracted considerable international attention due to economic liberalization. These initiatives have involved many policy changes favored by the private sector participations including:

- new investment incentives, especially with the Promotion of Investments across the border.
- reforms of the government bureaucracy to be more responsive to private business needs and requirements
- restraint of the public or the state-owned enterprise expansion
- privatization of the more lucrative public enterprises
- contracting out of some government services
- allowing private enterprise to build and operate public amenities previously provided by the public sector.

#### **CORPORATE GOVERNANCE AND INDUSTRIAL RELATIONS REPORTING – WHITHER WINDOW DRESSED REPORTING**

The Corporate Governance and Industrial Relations is important and necessary for the sustainable growth of the corporate and building up of a strong country. It is to be practiced through external environment as well as internal environment i.e. at macro and micro level and should cover the complete environment.

But, in practice only a few segments of the bigger picture beneficial to the Management have been

reported a rosy picture and the covering up the shadow part – which may be worthwhile to call it “Window Dressed Corporate Governance” Reporting.

#### **CONCLUSION : BEST OF BOTH WORLDS**

The Corporate Governance extends beyond the Corporate Law. Its fundamental objective is not merely maximizing value to the share holders but to balance with those of stake holders – employees, customers, suppliers, investors, communities in order to achieve long term sustained value.

Industrial Relations helps in setting up committees such as labour committee and industrial committees. These committees lays foundations of code of discipline for the compliance of employers and employees. It increases labour efficiency and has far reaching impact on the production.

The management and unions should develop constructive attitude to each other. Management must accept workers as equal partners and recognize their union as the spokesman of their grievances and difficulties and as custodian of their interests. Similarly, workers should also appreciate the rights, authority and responsibility of the management and respect the managers.

The nature of the labour policy of the government influences the structure of relationship. In a welfare state like India, the government interfere with the corporate employer in the field of industrial relations. Indian government is playing the role of fostering and promoting closer relationship between employers and employees.

All policies and procedures pertaining to corporate governance and industrial relations should be clearly spelt out and communicated to every one in the organization and the union leaders. If the policies are not followed in letter and spirit, it will result in deterioration of industrial relations and failure of governance.

Managing the Industrial Relations and the Corporate Governance on the one side and the Corporate development on the other simultaneously can be a challenging task for any organization. All disciplines

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have their conceptual boundaries, and any value-based normative consideration of human behaviour simply lies beyond the conceptual boundary. The corporate development would be set adrift in the scientifically un-navigable sea of moral philosophy. The wealth maximization and generation of profit by the corporate are the basic pillars sustaining the corporate growth. A few experts suggest ways through which one could strike a balance between industrial relations, issues of governance and corporate developments allowing "Management of Sustainable Development in India".

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