Corporate Governance Practices in South Asia: A Comparative Study of India and Nepal

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ABSTRACT

Purpose: The present study examines on the corporate governance (CG) practices prevalent in India and Nepal, as Corporate Governance emphasizes on fairness, transparency, accountability and responsibility. The present study is an attempt to add value to this domain since no previous study comparing the CG practices in these countries was so far. Problem: India and Nepal had their own share of financial crises and problems besetting the trust of investors while the former took several measures to instil trust among the stakeholders, shareholders, regulatory bodies and the public. Nepal, on the other hand, has taken initiatives in the late 2010s and is expected to fulfil the intended objectives. The present study compares and contrasts the CG practices in these two countries. Methodology: The present study is a narrative review that encompasses data from the published articles, government data, external affairs ministry, standard organizations, books, research papers etc. Further, the present study also theoretically analyses the gap and provides suggestions to the policy makers. Findings: From the theoretical analyses, it can be inferred that although both countries experienced with financial scandals, India has been a forerunner in installing CG practices widely and gained edge compared to Nepal. On the other hand, Nepal has taken the necessary initiatives to move forward in the corporate ladder with its manpower, closeness to India both geographically and politically, and vibrant economy. Originality: The present study is a first of its kind attempt to compare the corporate governance practices between India and Nepal while the future studies should focus on CG practices in all SAARC countries as well.

Key words: Corporate governance, financial crisis, financial scandal, Nepal, India, stability, shareholder, stakeholder, transparency.

INTRODUCTION

Corporate governance has become the base for business and accounting standards, economic performance, corporate social responsibility, supply chain management, employee empowerment, sustainable businesses and business continuity plan. The first and the foremost component that helps in averting financial crisis in organizations would be appropriate implementation and adherence to corporate governance measures (Guha et al., 2019). According to Cadbury Committee (Cadbury Committee, 1992), corporate governance is a procedure and the relations that are managed by various sorts of groups for running and management of a business. It is common for the implementation of CG practices in different countries to vary since the local structure, political climate and economic conditions tend to vary from one region to another (Ali, 2022).

CG has four basic principles such as fairness, transparency, accountability, and responsibility (Robin, 2019). CG
emphasizes on the following components such as the cognitive model of government, financial model, model of governance of contracts among the participants, and decision-making through good practices. The key driving factor behind CG is value addition to the firm and increased participation (either directly or indirectly) of the personnel involved whereas the performance of the corporates tends to increase with well-established CG mechanisms in place (Affes and Jarboui, 2023; Garzón Castrillón, 2021; Guluma, 2021). Although corporate organizations are owned predominantly by stakeholders, shareholders, and owners, the functioning or the administration of the organization is done by the board of directors. CG policies make sure that the board’s decisions regarding the administration of the firm are of high business ethics. It encompasses mechanisms, processes, and relations that are developed to govern the firm and achieve sustained growth in the market. Governance structures and principles define rights and responsibilities for every participant in the organization’s functioning (such as the board of directors, managers, stakeholders and shareholders, creditors, auditors, and regulators) (Robin, 2019).

In this background, the current study is an attempt to comparatively analyze the CG practices in Nepal and India and offers valuable insights in this domain. While the studies conducted earlier focused on India and Sri Lanka (Sujani, 2016), India, Pakistan, and Bangladesh (Qurashi, 2018), to the best of author’s knowledge, no such study has been conducted in this context considering Nepal and India. The two countries under study, i.e., Nepal and India have been neighbors and exhibit a strong economic, cultural, geographical, and strategic relationship for a known time. CG measures have been predominantly studied in their respective countries, though no such comparative study has been conducted so far. Nepal has understood the importance of CG policies after the banking crises, it suffered in the past two decades. Although both the countries have had their own share of financial scandals and crises, India has a slight advantage in terms of waking up to the emerging ecosystem and meeting the CG requirements before Nepal. On the other hand, Nepal has introduced many welcome measures in recent years that can boost the CG practices in the landlocked Himalayan nation. The current study is a first-of-its-kind attempt to assess the existing practices and available studies and provide recommendations/suggestions to the policymakers in respective countries.

**CG IN SOUTH EAST ASIA**

Before delving into the core countries under study, it is important to understand the CG practices in South and South-East Asia. The last two decades experienced a significant improvement in South-East Asian national regulatory frameworks and efficient CG structures driven by OECD. Out of the total eight SAARC member countries, Nepal is the only country without a specific code for CG. However, the Securities Board of Nepal, Nepal Rastra Bank, and Insurance Board have certain directives that sound similar to CG aspects (Asian Development Bank, 2021). Figure 1 shows the listed companies in all the regions of the world.

The G20/OECD principles of CG remain the international standard for CG practices across the globe. After the initial standards set in 1999 and in 2004 (Gutterman, 2023), the latest version was revised in the year 2021–2023 (OECD, 2023a) to include the country’s efforts for companies’ access to finance in capital markets and promote the resilience and sustainability of the corporations.

According to OECD (2023a), CG involves a set of relationships among the stakeholders, shareholders, board, and company’s management. Although the policies do not bind any specific organization, act as a guideline value for appropriate and sustainable management of the organization per se. The framework for CG must be devised in such a way that it positively influences the corporate’s access to finance, business stability, ethics, sustainability, resilience, market integrity, and overall economic performance.

In Pakistan, the impact of CG tools such as board size, board independence, CEO status, board education, and established year of the firm upon firm performance among 75 listed firms on Pakistan Stock Exchange. The study found a connection between the firm’s performance and the studied variables. Further, the outcomes imply that when the total number of board members and their educational average increase, it enhances the firm’s performance (Ali et al., 2022). In literature (Guluma, 2021), the authors analyzed the impact of CG measures upon firm performance among 11,634 Chinese listed firms through generalized method of the moments estimation model. According to the study findings, managerial overconfidence tends to negatively impact the relationship of board independence, dual leadership, and ownership concentration with firm performance.

In the study conducted on publicly-listed companies in Vietnam for the period 2019-2021, the authors (Bui and Krajcsák, 2023) analyzed the importance of CG on financial performance. The study primarily analyzed and found a positive relationship between the two variables, i.e., CG and financial performance. Being one of the Asian countries, Vietnam follows a two-tier CG system in which
the top management is supervised by the board of directors and supervisory board. In comparison with the rest of the Asian countries, Vietnam scored a mere 41.7% in CG score compared to other nations. In the study conducted earlier, the author (Syangbo, 2021) analyzed the influence of CG upon the perceived performance of commercial banks, functioning in Nepal. For this study, the authors analyzed the responses from 200 bank employees and the study found a positive relationship between the said variables. The study found that the absence of board of directors, non-satisfactory adherence to auditory regulations, and non-adherence to written code for banks should be sorted out if the commercial banks operating in Nepal are to be improved.

**INDIA AND NEPAL – AN OVERVIEW**

Nepal and India, the neighboring countries, share historical, social, cultural, religious, and multidimensional relations that date back to 1947. In terms of economic relations, India and Nepal’s dignitaries meet once every 2 months to discuss about the prospects and growth issues. Nepal has been one of the destinations of Indian investment in terms of both public and private sectors (Ministry of foreign affairs, 2019). The Ministry of Corporate Affairs, India (Confederation of Indian Industry, 2009), has laid down the recommendations for the voluntary adoption of CG practices in Indian firms. The report lists the recommendations, responsibilities, and roles of board of directors (including non-executive and independent directors, board committees, and important party transactions), auditors (independent nature of auditors and rotation of audit partners), regulatory agencies (legal and regulatory standards, effective and credible enforcement), and external institutions such as the press and institutional investors. This occurred in the aftermath of financial scandals faced by Indian economy. India has had its own share of scams such as Big Bull, Harshad Mehta’s scam, and Satyam computers. Some of these financial scandals shattered the trust among investors due to poor corporate management and ignorance of core business. India laid down CG policies right starting from CII report and Birla committee recommendations (2000) etc. (Abhilash et al., 2023). India is a significant contributor to different types of OECD standard-setting activities and the contribution made by the country toward economic policy reforms to be introduced by OECD is crucial. Further, India was the first key partner country to be involved in fiscal relations across different levels of government in 2013 (OECD, 2019). In a study focusing on 50 firms in India (Nag and Chatterjee, 2020), the impact of CG practices on firm’s performance was analyzed and the study found that CG variables remarkably
enhances the firm’s performance or value creation. Majority of the Indian firms are either family businesses or run by most family members in decision-making positions. In comparison with other countries, the governance style of Indian firms is different in terms of weak regulatory norms, absence of institutional investors, and lack of shareholders’ activism. The country has also paid attention to the SMEs in terms of CG policies since they act as the backbone for economic growth. The study conducted earlier (Dhonège, 2023) established the importance of CG practices in Indian SMEs and the methods for its hassle-free implementation.

On the other hand, the study conducted by (Tandukar et al., 2020) reviewed the effectiveness of the national policy that paves the way to enhance CG in Nepal’s banking sector. The authors found a close linkage between legal and regulatory provisions and the impact of CG on the banking sector in Nepal. Since Nepal has undergone a transformation in terms of institutional and governance aspects, it is expected to grow by leaps and bounds in terms of securities market and external corporate financial sources. The CG frameworks in Nepalese banks have been formulated on the basis of Bank and Financial Institutions Act 2006, Companies Act 2006, and NRB directive No. 6. According to the author (Risal, 2019), the financial sector in Nepal is yet to have fully-functional CG practices in place to have a reliable and competitive economy. In another study (Dongol, 2021), the performance of 10 commercial banks operating in Nepal was assessed for its CG framework. According to the study results, a negative relationship exists between the gender diversity in board and the financial performance of banks. Regarding the board size, mixed findings were found in the financial performance.

In the recent years (Shivamurthy and Pant, 2023), Nepal has been allowed to export electricity to India to a tune of 452 MW, thus the Himalayan country earns approximately 12 Billion. Further, Nepal has strong ties with India in terms of cross-border petroleum pipeline, cross-border payment system, and infrastructural development for security and foreign services. Although the economy of Nepal is in bad shape with increasing fuel and food prices, essential commodities, and reducing FDIs, it is maintaining a strong pact with India through its Neighborhood First policy.

**COMPARISON OF CG POLICIES**

In literature, the evolution of CG practices in India for two decades was studied by (Guha et al., 2019), in which 52 companies’ information was analyzed based on the criteria set by OECD. The study inferred that CG policies steadily increased the growth of financial market, increased spending on Research and Development, and trust among the shareholders. According to Kaur (2011), CG was rarely used in 1980s while in the aftermath of 2008 financial crisis, CG gained importance in India too. The move helped in frequent reviews and auditing of the company’s accounts, risk analyses, operating statements, and strategic reports. Further, the board directors, size, and profile of the directors were also shown much importance than ever before.

NEPSE (Nepal Stock Exchange) is small in size with low number of securities with regard to variety, number, and facility while the country’s major bank is Nepal Rashtra Bank. The Nepalese government has implemented FSRP to enhance the position of CG in commercial banks and other such financial institutions. Although there have been structural deficiencies and institutional setbacks, the Nepal Rashtra Bank has taken significant initiatives to increase accountability, responsibility, and financial stability (Lamsal and Basnet, 2023).

The Nepalese financial sector suffered a crisis two decades ago due to bad CG measures. Especially, Nepal Development Bank followed by Samjhana Finance in the year 2009, Gurkha Development Bank, and United Development Bank encountered deep crisis due to differences of opinion among the promoters. Various reasons were also cited by the Nepal Rashtra Bank such as unhealthy competition among the banks, unjustified lending to a few specific sectors, delayed damage control measures, and miscalculation in funds management (Syangbo, 2021). In literature (Dangol, 2017), the authors analyzed the abnormal returns from specific dividend announcement samples in the Nepalese stock market and found that the stock market extends its support to the semi-strong form of market efficiency. According to the study findings, stock dividend is preferred by Nepalese investors compared to cash dividends. The results are affirmative that the CG practices increase the trust of the companies among its investors.

CG practice and its impact on ownership structure and firm performance among 25 Nepalese firms was studied earlier. In this study (Bahadur and Baral, 2019), the authors made use of econometric methodology and found a bi-directional relationship between CG and performance. Some of the important mechanisms suggested by the study to be focused by Nepalese firms, in terms of CG, include smaller board size, high number of independent directors, mitigating high involvement of the owner, and enhanced transparency and disclosure.

According to Tandukar et al. (2020), the challenges faced in
the implementation of CG in Nepal include weak civil society with high illiteracy, low accountability, responsiveness and transparency, deep-rooted corruption practices, weak law enforcement, equity and inclusiveness, political instability, and conventional mindset toward governance system. Despite its contribution, the legal provisions for SMEs are null while they face challenges in terms of transparency and financial reporting. It is important for the government to take commendable initiatives to streamline the business operations of the companies and ease the incorporation and auditing processes so that more and more entrepreneurs will be interested in establishing organizations that adhere to CG policies.

**DISCUSSION**

The need for CG measures in today’s globalized market conditions is more than expected due to dynamic changes in ownership and business structure, heavy concentration of CSR policies, high possibilities for malpractices in accounting, inactive status of shareholders, and legal bindings (Robin, 2019). OECD suggests that digital technologies empower the organization to supervise and implement CG requirements whereas it is the responsibility of the regulatory authorities to avert the risks associated with data breach, confidentiality etc., The legal and regulatory requirements must adhere to the rule of law, enforceable as well as transparent. Clear articulation of the roles and responsibilities must be a norm for different types of parties involved. Enhanced cross-border cooperation and effective regulatory frameworks of publicly-traded firms are undeniable principles of CG, according to OECD (2023a).

CG comes with its own issues to address such as challenging selection procedure of board members, performance evaluation of the directors, liability toward the stakeholders, dependent nature of the directors, intrusion of the founder/promoter, and transparency (Robin, 2019). As mentioned elsewhere, Nepalese banking sector suffered crisis in two instances such as the bankruptcy of Nepal Bangladesh Bank (NB Bank) in 2006 and ViborBikas Bank (VBB) in 2011, which are purely due to non-adherence to CG measures. The author (Chand, 2020) confirms that the organizations in Nepal are yet to fully adopt proper CG practices in their entire functioning. Hence, it is important for the regulatory authorities to make the organizations comply to good corporate governance policies.

Sharing the best practices between the neighboring countries is always fruitful while India and Nepal should take initiatives to share their best corporate governance practices since the latter’s economy heavily relies on the former. The governments of both the countries should enter into knowledge-sharing pacts that disseminate the available information for achieving a sustainable ecosystem for the businesses. Further research should be conducted upon dividend policy on the firm, whistle-blowing practices, and identification of errors and fraudulent activities on company’s board. In addition to these, different forms of accounting measures for green governance, CSR disclosure, sustainability reporting, etc., should be provided importance (Abhilash et al., 2023). In future, the studies pertaining to CG must be inclusive of custom-driven surveys, focus group discussions, content analysis, and interviews so as to gain multiple perspectives on the given areas of interest.

**CONCLUSION**

The current study is a first-of-its-kind attempt toward comparing the corporate governance measures in India and Nepal while the study provided a bird’s eye view on the history and the active role played by both the countries in terms of corporate governance mechanisms. As per the OECD data, although Nepal is lagging behind India in terms of adherence to CG practices, Nepal has a lot of scope to improve with its vibrant business ecosystem and continuous economic support from India. Further, the country must focus on cultivating the values from the beginning so that the organizations can have transparency, reliability, and free from corruption. On the other hand, India must strive to enhance her CG mechanisms since the country has suffered in the aftermath of GST introduction and COVID-19 outbreak. Although India has successfully moved forward, there is a lot of scope that exists in terms of extensive adherence to CG frameworks in all types of companies. In the future, the researchers can focus on studying the CG practices among the SAARC countries with specific focus to countries with similar economy or geographical location.

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**CONFLICT OF INTEREST**

The author(s) declare that they have no conflict of interest. The manuscript was written with the knowledge and approval of the author(s) concerned and all have contributed equally.

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