CORPORATE GOVERNANCE IN PARTNERSHIP FIRMS

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Abstract

Corporate governance is a process set up for the firms based on certain systems and principles by which a company is governed. The guidelines provided ensure that the company is directed and controlled in a way so as to achieve the goals and objectives to add value to the company and also benefit the stakeholders in the long term.

Transparency in corporate governance is essential for the growth, profitability and stability of any business. The need for good corporate governance has intensified due to growing competition amongst businesses in all economic sectors.

There is no corporate governance in case of the partnership firms/sole proprietorships due to which the firms lack sustainable business and long term growth. This paper sheds light of the idea of implementing corporate governance in partnership firms which will not only benefit the firms but also the governing bodies like the municipal corporation, income tax department, revenue department, etc.

Keywords: Corporate Governance, Transparency, Sustainable Business, Profitability

OBJECTIVES

1) To implement corporate governance in the partnership firms.
2) Voluntary adoptions of certain corporate governance practices for the ease of doing business.
    - A list of few such voluntary adoptions have been highlighted in the project report submitted for the award of PGDBM at the Symbiosis Institution of Management studies (SIMS) by the author.

3) To discuss the impact of rising number of partnership firms.
    - Number of firms are rising in India due to the *Make In India* movement and these firms should be governed to avoid situations like Satyam scam, Lehmen Brothers, WorldCom etc.

INTRODUCTION

This research paper captures the key outcomes reported in the project work entitled *Corporate Governance in Partnership firms* submitted by the author for the award of PDGBM degree at the Symbiosis Institute of Management Studies(SIMS) in 2016 under the guidance of Dr. Pravin Kumar and Prof. Praveen Ratan.

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The genesis of the above project work goes back to the author being from family business comprising of a construction firm. The idea was based on the value corporate governance could potentially create for partnership firms/ small family business and enable transparency and thereby business growth and proliferation resulting in benefits not only to the businesses but also the governing bodies like Income tax department, municipal corporation etc.

In recent times the number of partnership firms is rising. The *Make In India* movement by the Government of India planned as a rising tide for the development of our country and its people, is also adding to the rise of the partnership firms. If these rising number of firms are not governed properly then it might lead to tough situations somewhat similar to the Lehmen brothers, Satyam scam, etc. To avoid this, if corporate governance for the partnership firms is made as an act then it might help in better governance of the firms nationwide.

LITERATURE REVIEW

Ever since India's biggest-ever corporate fraud and governance failure unearthed at Satyam Computer Services Limited, the concerns about good Corporate Governance have increased phenomenally.
Internationally, there has been a great deal of debate going on for quite some time. The famous Cadbury Committee defined "Corporate Governance" in its Report (Financial Aspects of Corporate Governance, published in 1992) as *"the system by which companies are directed and controlled"*.[1]

Staying on top of regulation, promoting an ethical atmosphere and exploring transparency is not only restricted to large businesses.

Corporate governance is not quite common in the small business realm. In fact, most companies feel that governance should be executed in large, publicly owned or traded companies, however that is not always the case.

In a recent Corporate Governance for Small Business report compiled by 4imprint, a company that provides in-depth, how-to articles based on research conducted by professionals and published experts who are familiar with industry trends- points out that small enterprises should start integrating corporate governance practices to best support its investors or multiple business partners.

‘It’s true that most small businesses are more concerned about viability and affordable business solutions than they are about corruption,’ the report says. ‘In a free-market business culture, corporate governance practices can bring stability to markets, strengthen institutions, promote investment and weaken corruption.’[2]

Corporate governance is now seen as an essential building block of stable economies. It helps to protect the rights and interests of shareholders and, increasingly, those of other stakeholders, providing a framework for effective monitoring of management actions and performance and for encouraging better business results. The challenge for SMEs is that established corporate governance frameworks have been developed with large, listed companies primarily in mind. Such frameworks and codes may not reflect the characteristics of the SME, where owners may often be its managers as well, or where company ownership may be shared across family members. The attention should be focused on the role of appropriate governance frameworks for encouraging socially responsible behavior and commercial success among SMEs.[3]

[1] India: Corporate Governance Framework In India
Last Updated: 8 January 2016
Article by Vaish Associates Advocates
Vaish Associates Advocates

[2] Corporate governance and small businesses
January 4, 2011 | By Aarti Maharaj

[3] Governance for all: the implementation challenge for SMEs
ACCA (the Association of Chartered Certified Accountants)

OVERVIEW

There are four broad type of businesses -

- Public limited
- Private limited
- Partnership firms
- Sole Proprietorship firms

Out of these, the public limited companies and the private limited companies have strict norms for the implementation of corporate governance but the partnership firms and sole proprietorship firms do not have such norms. Because of the *Make In India* movement the number of partnership firms is already rising and these firms need to be governed properly by some regulation.

It is very difficult for the partnership firms to follow all the prescribed points which are designed for the governance of public limited and private limited companies. So, this is for sure that some lenience should be allowed in corporate governance of the partnership firms. Some points should be mandatory for partnership firms whereas some other points should be less strict.

This concern guided the author's study towards the Report of the Confederation of Indian Industry task force on corporate governance lead by Chairman Naresh Candra, formally known as Naresh Candra report. This is a report where in there are suggested points for voluntarily adoption for corporate governance. Though many points of the report have now been adopted by most of the companies, it still leads to the fact that the report talks about voluntarily adoptions. This idea guided the project towards voluntarily adoptions which could be followed by the emerging and the existing partnership firms. It will not only lead to a better governance of the partnership firms but it will also help in their steady growth.

This report in future can prove to be beneficial if Corporate Governance of partnership firms is made as an act by the government which is exactly what the author has in mind.

Advantages of implementing corporate governance in partnership firms -

- The financial transactions in the business would be clearer.
- The firms would get loans more easily since the business would be transparent after the implementation of corporate governance.
- The business growth would be quite stable because of the governing norms.
- Governing bodies like the income tax department, Municipal Corporation, revenue department, etc would have a better control on the governance of the firms.
- The firms could be sold, merged or acquired by the other companies for a better and appropriate market value.
- Cashless transactions will increase.
- The business could be made big and it could go international with some additional planning with more ease.

Current drawbacks of not having corporate governance in partnership firms -

- Many partnership firms are not able to carry a long term sustainable business due to lack of transparency and governance.
- The losses made by the firms or the bad business creates a financial problem for the partners since the partners together invest money for the firm to grow.
- In India there are very less tax payers. This is hampering the growth of our nation. Most of the companies that pay less taxes or no taxes inspite of doing good business are the partnership firms. If the partnership firms are made to pay taxes by implementation of corporate governance then the taxpayer bracket will increase differentially.

CONCLUSION

So there should be certain voluntarily steps taken by the partnership firms to ensure that Corporate Governance is implemented in the business. As a benchmark of following corporate governance practices, the Corporate Governance report of the Tata Steel Company is attached to the author's project report. It is not that all the steps taken by the Tata Steel group for their corporate governance should be followed by the partnership firms as it will increase the cost of capital required to start any business but at least certain points can be taken from the corporate governance in Tata steel report without affecting the cost of capital for running a business. Thus, the Tata Steel report acts as a benchmark for the author's project report and that is the reason it is attached it to report.
Lastly, in his project report the author suggests certain points which can be followed for better corporate governance of the firms. These points have been taken from the partnership firm act and other sources which the author has mentioned in the bibliography of the project report. Also, the author has added some of his own points as a

suggestive measure. After that, the author has ended the project report explaining the need to follow or implement corporate governance in partnership firms just like it has been implemented in Private and Public limited companies. The road ahead for the development of the country, its economy and its people by following corporate governance in Partnership firms is also explained in the project report. The project report has all the links and references in the end that have been used to make the project report.

The author strongly believes that if steps are taken to make corporate governance mandatory in partnership firms then our country will experience better governance and ultimately a better future considering the rate at which the number of partnership firms are rising in India. Not all the points but at least some points can be made mandatory. With this, the research paper on *Corporate Governance in Partnership firms* ends.

References

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