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Determinants of Accountability in Service Sector organisations: Exploration of Corporate Governance in the Hospitality Sector

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Corporate Governance is very important for hotel enterprises as it confronts a range of issues, including various markets, shareholders, stakeholders, governance systems, and legislation. Debt financing is also higher in the hotel industry than in other industries.[1]*. As a consequence, top management may feel obliged to carry out further monitoring. As large hotel chains strive to expand, initial public offers (IPO) became a popular capital acquisition strategy, requiring companies to meet the high corporate governance criteria of stock markets. Therefore, it becomes important for us to understand the play of corporate governance in the hospitality sector and trace out the various determinants.*

Keywords: *company law, corporate governance, hospitality sector, hotel industry.*

INTRODUCTION

The set of practices, customs, rules, regulations, and institutions that govern how a corporation is administered, managed, and controlled is referred to as 'corporate governance. Corporate governance also involves objectives underlying the organization and governs the interactions

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[1] Oak and Iyengar, 'Investigating the differences in corporate Governance between hospitality and non-hospitality firms' (2009) 5 Advances in Hospitality and Leisure

between the numerous stakeholders involved. Corporate governance is "the link between the corporation and its stakeholders that establishes and governs the strategic direction and performance of the corporation."[2].

Numerous committees were established by the Ministry of Corporate Affairs (MCA), the Government of India, and the Securities and Exchange Board of India (SEBI) to guarantee a solid corporate governance framework in India. Corporate governance in India started in the 1990s. The real birth of corporate governance may be traced to the 1990s when various scams and tragedies were caused by a lack of monitoring and regulation. Improvements in Indian corporate governance have coincided with the economic revolution of India. The evolving Indian economy, the expanding presence of foreign and institutional investors (national and international), and India's growing aspiration to join global capital markets have led to corporate governance reform by acquiring stock exchange listings outside India.[3]

Following this introduction, the Indian hospitality sector in general, the current corporate governance of the firm, and the advantages of using great corporate governance concepts in the hotel sector will be discussed.

HISTORY OF CORPORATE GOVERNANCE

There have been instances of excessive corporate expansion and eventual failure in the history of the capital markets with corporations seeking to expand outside their borders and resulting in market instability and investment disruption. Following the First World War in the 'Roaring Twenties' or '1920-1929,' the world observed prosperity mostly on the American markets, encouraging Americans to buy things manufactured by American businesses and so increasing productivity and sales. But in October 1929 the period of prosperity ended with stocks being overpriced which resulted in the largest stock market crash in the history of the United States and finally in the Great Depression. As a result, legislation like the 1933 and 1934

[2] Yadong Luo, 'Corporate governance and accountability in multinational enterprises: Concepts and agenda' (2005) 11 Journal of International Management
[3] Afra Afsharipour, 'The Promise and Challenges of India's Corporate Governance Reforms' (2010) 1 Indian Journal of Law and Economics

Securities Acts attempted to control the stock market to restore investor confidence. However, they were unable to compete for closer cooperation between shareholders and management interests, and the disappearance of corporate managers such as Enron and Satyam as financial markets were evolved and sophisticated.

The Joint Stock Companies Act of 1844,[4] enabled English companies to state their purpose and profit. The Limited Liability Act of 1855,[5] offered the shareholders little protection from the negative impact of companies on their personal wealth. Shortly thereafter, the expansion of the corporation was supported by an increase in commodities and service trade, export, and imports.[6] America's industrial revolution was driven by ideas such as free enterprise and capitalism.[7] and by the necessity for monetary inflows. More and more companies began collecting funds through the issuance to the public of stocks (or ownership) that "removed the owner from the managerial job" in the 19th-20th century[8].

CORPORATE GOVERNANCE IN THE INDIAN HOTEL INDUSTRY

In the last few years, corporate governance regulations in India have been significantly strengthened to bring greater equality and transparency in the way organizations govern themselves. Following the Satyam catastrophe, the Ministry of Corporate Affairs, the Government of India, and the Securities and Exchange Board of India announced new guidelines requiring firms to improve corporate performance – one of the numerous actions introduced to promote better disclosure. The Government of India, Ministry of Corporate Affairs, is transforming its code into a legal act by amending the Companies Bill 2009.[9]

Most large hotel firms in India are publicly listed and comply with SEBI and MCA rules. Hotel businesses had a hard time in the past. In the hotel industry in India, incomes have been

[4] Joint Stock Companies Act 1844
[5] Limited Liability Act 1855
[6] Andrew and Schmidgall, *Financial management for the hospitality industry* (Amer Hotel & Motel Assn 2007)
[7] Monks & Menow, *Corporate Governance* (Black Well Publishing 2004)
[8] Grant, 'Strategic planning in a turbulent environment: evidence from the oil majors' [2013] Strategic Management Journal
[9] Chakrabarti and others, 'Corporate Governance in India' [2010] Journal of Applied Corporate Finance

declining, and significant currency fluctuations have contributed to the complexity of the problem. CEOs and Boards of Directors of hotel companies play a key role in driving organizations towards success. Leading a firm with assurance and confidence through an ever-changing business climate is important to its success. It is the Board of directors' responsibility to monitor the strategies that guide the organization. Sound corporate Governance is now more important than ever. Senior management needs to believe in a strong commitment to moral and responsible behavior to develop the hotel industry. They must also recognize and implement the required organizational governance strategy, processes, and structures. This plan could include the creation of a unique communication system so that all employees are aware of the ethics code of the company and provide the audit committee with more authority.[10]

As a result of the increasing trend of globalization, a growing number of Indian hotels are establishing good corporate governance processes to maintain the highest international standards. Indian companies have become an increasingly essential component of the global supply chain and make a vital contribution to the economic success of the country. The Indian hotel sector is flourishing due to multinational hotel companies setting up shops in India.[11] The hotel business confronts major challenges in managing its operations and maintaining its expansion, with foreign hotel brands such as Starwood, Accor, Marriot, Hyatt, and Four Seasons building numerous sites in India. Improved standards of Governance would therefore not just be crucial for the hospitality industry but also other industries. The hotel companies must therefore become more open-ended, reveal transactions to all interested parties, defend the interests of shareholders and ensure that the principles of integrity, transparency, impartiality, and meritocracy are leading the organization.

COMPARATIVE ANALYSIS OF CORPORATE GOVERNANCE: INDIA AND OTHER COUNTRIES

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[10] Bose, 'Growth and dynamics of corporate Governance in India-An emerging trend towards a global market economy' [2007] Paper presented at Business Ethics in Global World China. India & Beyond

[11] *Ibid*

The US and India have strong trade relations, particularly as America's IT requirements are continually being outsourced to India. The IT outsourcing sector in India is estimated at US$150 billion and is increasing 12% annually. The Enron and Satyam disasters are analyzed to better understand India and the United States corporate governance paradigm and the repercussions of the failure of corporate governance. Enron Corporation was a power firm situated in Houston, Texas, and one of the sixth largest companies in the country. The company succeeded because it earned several billion dollars in sales due to its unique work culture from 1985 to the early 2000s. However, one of the largest accounting scandals in the country appeared in October 2001.

Since 1994, Enron's shell companies or special purpose firms have collected about $600 million, removing substantial losses from its financial statements. Enron thus filed for bankruptcy protection, with shareholdings decreased on 2 December 2002 from $90.75 to less than $0.75, forcing workers who had invested extensively in Enron to lose their living savings, and investors to lose trillions of dollars. The audit committee, which was further impeded by an insufficient corporate governance architecture, may bear many failures. Enron was one of the largest disasters on the US financial markets, and the audit board can bear many failures. The audit committee has followed the SEC's leadership and all legislation (pay and independence of directors, disclosure, and financial statements). Enron reimbursed managers using stock options for matching business interests with shareholders, highlighting the weaknesses and achievements of the American Corporate Governance model at the beginning of the 2000s. This, however, created even greater pressure on managers to gain higher stock prices in whatever way they could and to prevent independent auditors from scrutinizing falsified accounting practices.

The Audit Committee also lacked the knowledge or experience to understand Enron's accounting practices due to Enron's involvement in special-purpose organizations. The lack of agency theory and stakeholder theory can be seen in the Enron debacle in the paradigm of corporate governance. The emphasis on the link between reward and success, close links between the board and Enron, and cryptic financial disclosures have all helped to undermine

the efficient market theory. Suppliers, consumers, workers, investors, and the local community might all have taken part in catastrophe prevention management choices.

The Satyam scandal (also known as the 'Enron of India') was one of the worst corporate frauds in India, with a notional maneuverable value of $1.1 billion (94 percent of book cash) and a loss of $2.2 billion for the investors. On 10 April 2015, the formal decision has been handed down and Hi President B Ramalinga Raju has been condemned to imprisonment. Satyam Computer was founded by the Bombay Stock Exchange in 1987 as a family-owned company. Satyam was one of the first IT companies in India to identify software outsourcing options, and it was also the first Indian IT business to enter on the New York Stock Exchange (NASDAQ) (and soon expanded to 30 other countries). The company generated revenues of more than $1 billion in 2006, won its chairman's award, and was appointed as the official I.T. service provider for the 2010 and 2014 FIFA World Cups.

In December 2008, after the Maytas acquisition had crumbled, Satyam's inventory was said to have blocked Satyam Computer Services from doing business with it for eight years because of suspicions of data robbery and misconduct. Although independent managers were present on the Board of Directors, due to a lack of awareness, the lack of proper management standards was obvious (about the data theft allegations against Satyam). Raju resigned as chairman and wrote to the board of directors admitting to criminal conduct, which exaggerated $1 billion (or 7,000 crore rupees) in the accounts of his diabolical plans to replace Maytas' assets. For many years the Board of Directors, employees, and auditors successfully disguised billions of dollars in fraud (from PricewaterhouseCoopers). The Indian government appointed the board of directors of Satyam and hired a new group of qualified managers to support the company.

The Satyam case also showed the difficulty of the agency due to its ownership and management division. The ideals of Satyam Corporation or its shareholders were powerless to stop the opportunistic acts of the Raju family or agents. In addition, the crisis affected various stakeholders of the organization.[12] Internal players have been affected by an unstable working

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[12] Sarkar, 'Large Shareholder Activism in Corporate Governance in Emerging Economies: Evidence from India' [2000] International Review of Finance

environment, job losses, loss of shareholder portfolio (as Satyam's stock declined), power loss, and the Board of Directors' reputation. Similarly, the Indian government's intervention in corporate rescue, the IT industry's reputations and client outsourcing in India, the high costs of customer switching and the search for new partners, and the significant loss of PwC's credibility in India due to its failure to properly audit Satyam affected external stakeholders. There were faults in the Indian corporate governance structure: bank officials were bribed, data were stolen, accounts were phony, the board had close links with the Raju family, and the PwC auditors failed to complete the thorough assessment of their financial statements.[13]

By drafting the Law on New Enterprises in 2013, the government tried to avoid such fraud and SEBI moved to alter clause 49. More organizations use current technology and standards to protect their business operations, link CEO compensation to important task exposure management, and enhance domestic controls to prevent contraventions and fraud. The boards of directors and audit committees shall have additional authority and at least one-woman director shall be requested in the boards of directors. The auditing companies were compelled, in accordance with new laws primarily based on internal financial controls, to rotate every ten years (beginning in April 2017). The problem, however, is not adequate enforcement, loopholes, tragedy, corruption, and control promoters.[14]

In recent years, the corporate scandal generated by the dismal retail banking practices of Wells Fargo & Co underlined the need for corporate governance. It suggests that the core dynamics of the agency have failed. "Eight are outstanding," said John Strumpf, Wells Fargo's CEO. The slogan urged workers to persuade each customer to purchase eight Wells Fargo items and place them in an unpleasant position to satisfy the exacting objectives of the bosses. To open quotas, branch managers should discuss progress on daily accounts with regional managers.

Employees who failed to fulfill their quota were forced to stay late and to make a difference on weekends. Employees were also informed that they would be sacked if their quota had not been met for more than two months. As a result, the employees began to generate accounts

[13] Andrew and Schmidgall (n 6)
[14] Das and Ghosh, 'Corporate Governance in Banking System: An Empirical Investigation' [2004] Economic and Political Weekly

and credit cards for customers without their knowledge or agreement by faking their signatures. Staff have opened over 1.5 million accounts and issued more than 500,000 credit cards for more than six years, collecting over 2,6 million dollars in bank fees without alerting consumers. The L.A. Times carried out an investigation in 2013 and exposed the scam, with the collaboration of current and former staff. In September 2016, Wells Fargo stated that the company would agree in Los Angeles to pay 185 million dollars in fines to pay charges for creating bogus bank accounts by its workers.

Wells Fargo said that it had fired over 5,300 workers for unethical acts, to protect itself from the crisis.[15] In September 2016, the Bank revealed that the retail banking firm has discontinued all sales objectives and that CEO Stumpf apologized publicly. However, the business dispute has already occurred, and government officials including Elizabeth Warren and Treasury Secretary Jack Lew blasted Wells Fargo's behavior and called for John Stumpf's resignation and a criminal probe from the SEC (while Stumpf maintained his silence on clawbacks and compensation). Wells Fargo stated CEO Strumpf had awarded his bonus of $41 million in unpaid equity awards and received no compensation as the bank was probed.[16]

The ethical behavior of Wells Fargo's employees, according to research done by a panel of four independent directors, was influenced by the incentive scheme and high-pressure sales culture which led to improper and inconsistent behavior. The panel also condemned a decentralized operational architecture and leadership, noting that recognizing the depth and scale of the crisis took much too long. The research identified the Board's unwillingness to resolve sales concerns not just until the publication of the L.A. Times, but also because it "doesn't relay the scale of the problem properly" (Swafford, 2017) and did not listen to employees complaining about uncontrolled sales goals. Wells Fargo is also said to have not solved the problem's root by employing over 5,300 people. In consequence, the panel offered recommendations for corrective measures, including sales targets deletion, the expulsion of 4 officers, and a cash-

[15] Petrovic & Cerovic, 'The ownership structure as a corporate governance mechanism in Serbian hotels' [2010] UTMS Journal of Economics

[16] Das & Ghosh (n 14)

back payment of $180 million (including $141 million former CEO Strumpf). However, the annual Wells Fargo meeting showed that the suggestions lack investor support, with only a slim majority of investors reelecting 12 members.

Philip Augar reviewed information about the lack of variety of companies in the Financial Times Stock Exchange 100 index in a 2017 Financial Times report (FTSE 100). Only one out of four FTSE 100 company managers is a woman, and less than one in 50 managers is an ethnic minority. The Board of directors comes, as the British Prime Minister, Theresa May, says, from "limited social and business circles". The increase in executive compensation is accompanied by increasing scandals about environmental neglect (Volkswagen Group), money laundering (Commonwealth) Bank), sanctions-busting (HSBC), bribery and corruption (Samsung), and false accounting (Toshiba).

CONCLUSION

After experimental review and comparison of the results for both the United States and India, it can be claimed that in terms of the board size, the board composition and independence, leadership structure, and gender diversity, there are disparities between the two countries. While in India, corporate governance laws were developed with a comprehensive grasp of global governance standards, including U.S. corporate governance standards, more effective methods to help policymakers develop corporate governance standards for Indian conditions are still needed. This study can provide some important insights into the current status and provisions of the corporate governance structure and the current practices of both economies and establish which ones can be better adapted to various large-scale economic systems.

This is an experimental investigation on the management of Indian hotels. Corporate Governance has become a key business component for all the major hotels described in the literature accessible. The annual reports of these hotel companies show that they respect the notion of outstanding corporate Governance throughout their transactions, the integrity of their conduct, and compliance with the highest standards of corporate values and ethics. The hotel organizations, comprising employees, visitors, and shareholders, treated all their

stakeholders fairly and equally while their management followed Corporate Management Guidelines. The current model of growth and increased competitiveness in the sector have already driven these organizations to integrate good Governance practice, which will further boost economic development and sustainability.

SUGGESTIONS

The author would suggest the following things to improve corporate governance:

1. Recognize that effective governance is about more than compliance

Boards must strike a balance between conformity (i.e., compliance with applicable law, regulation, and standards of practice) and performance in their job (i.e. improving the performance of the organization through strategy formulation and policy making). A board must clarify its stance and knowledge of the main tasks it performs in comparison to those done by management as part of this process. These particulars will differ per board. Understanding the board's function and who is responsible for what in terms of governance goes a long way toward fostering a positive relationship between the board and management.

2. Defining the board's strategic function

Today, it is widely recognized that the board of directors plays a critical role in formulating and adopting the organization's strategic direction. The board's involvement in strategy will vary from approval to development. Each board must decide the function that is suitable for it to play and communicate this to management.

3. Maintain an eye on the organization's performance

Monitoring organizational performance is a critical board responsibility, as does maintain legal conformity. It guarantees that corporate decision-making is compatible with the organization's strategy and with the expectations of its owners. This is best accomplished by identifying the organization's critical performance drivers and creating suitable performance

metrics. As a board, the directors should agree on a structure for the reports they oversee to ensure that all pertinent information is included.

4. Recognize that the CEO is employed by the board of directors.

In most instances, one of the board's primary responsibilities is to nominate, evaluate, work with, and replace the CEO (as required). The board/CEO relationship is critical to successful corporate governance because it serves as a conduit between the board's function in setting the strategic direction of the organization and management's involvement in accomplishing corporate goals.

5. Recognize that risk management is a board responsibility

Another critical function of the board is to establish a solid system of risk monitoring, management, and internal control. Effective risk management enables more informed decision-making by providing a more nuanced understanding of the risk-reward trade-offs that all organizations confront.

6. Ensure that directors have the necessary information.

Better information results in more informed decisions. Regular board papers will give directors with the information requested by the CEO or management team. However, directors do not all have the same informational needs, since their knowledge, abilities, and experience vary. Briefings, presentations, site visits, and individual director development programs may all be used to offer more information to directors. Above all, directors must be able to get answers to their concerns, which is why a policy allowing for access to independent expert counsel is suggested.