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Corporate Governance: An Indian Perspective- Disparities in Theory and Reality

A dissertation submitted in partial fulfilment of the requirements of the Royal Docks Business School, University of East London for the degree of

Masters of Business Administration in Finance

September, 2013

Word Count: 17,313

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Corporate Governance: An Indian Perspective

Disparities in Theory and Reality

Abstract

This paper investigates the corporate governance problems within India. The purpose of this research study is to investigate current state of corporate governance and find solutions for problems in corporate governance practices followed within organisations in India. Therefore, an effort is made to reveal how adoption and implementation of good corporate governance practices in-accordance with the corporate governance norms can benefit diverse business forms and ultimately, country-specific economic growth. The variety of relevant and reliable literatures has been consulted to identify sources of corporate governance problems and solution for different corporate governance approaches. The development of research is based on identification of gaps between actual practices and theoretical framework of corporate governance through understanding of literatures and in-depth interviews of selected sample organisations in India. Moreover, for better understanding of actual corporate governance practices samples of diverse business forms were selected.

This paper further provides support for reforms in existing corporate governance mechanism based on key debates. The research findings states that, the family-groups dominates Indian corporate sector. However, blockholding, shareholders dominance and conflicts has been an important corporate governance issues within India. Furthermore, implementation of corporate governance norms, rigid regulations and incompetence of regulatory bodies are the key problems within Indian corporate sector. The findings of the study reaffirms importance of good corporate governance mechanism. Moreover, as the outcome of this study, specific suggestions are established in-accordance with various organisational forms for the development of corporate governance practices within organisations in India.

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List of Abbreviations

CA	Charted Accountant
C&AG	Controller and Auditor General of India
CEO	Chief Executive Officer
CFO	Chief financial Officer
CG	Corporate Governance
CII	Confederation of Indian Industries
CS	Company Secretary
CVC	Central Vigilance Commission
ICAI	Institute of Chartered Accountants of India
ICSI	Institute of Company Secretaries of India
IFRS	International Financial Reporting Standards
MCA	Ministry of Corporate Affairs
MNCs	Multinational Corporations
NASSCOM	National Association of Software and Services Companies
NFCG	National Foundation for Corporate Governance
NSE	National Stock Exchange of India Pvt Ltd.
OECD	Organisation for Economic Co-operation and Development
PSEs	Public Sector Enterprises
SEBI	Securities and Exchange Board of India
SMEs	Small and Medium Enterprises

Chapter 1

Introduction

1. Introduction

1.1 Rationale Statement

In corporate world, corporate governance has proved to be an incitement. The term corporate governance has been explicitly described as controlling mechanism for ethical operational conduct of corporations (Dwivedi, and Jain, 2005). Corporate governance deals with interests and **responsibilities of shareholders' and stakeholders' largely.** Over the last two decades, significant mechanism of corporate governance has been developed. **The corporate governance mechanism facilitate corporations' a** means of management and endeavour for development. The corporate governance mechanism is an arrangement of country-specific regulatory **frameworks, customs', rules and regulat**ions that directs operational conduct of an organisation (Balasubramanian *et al.*, 2008, p.6). The five basic parameters of corporate governance are transparency, ownership structures, board procedures, investor rights and governance strategies (Bijalwan and Shah, 2012, p.1). Moreover, corporate governance incorporates privilege of economic evolution for the society.

The corporate governance regulatory structures, cultural and organisational values, organisational policies and practices are vital influencing factors of corporate governance (Kumar and Singh, 2013; Claessens and Fan, 2002). The corporate governance critics imputes that the **good corporate governance attracts investment, develops shareholders'** confidence and trust. Moreover, sound governance mechanism exhibits traits **of financial integrity, shareholders' activism and organisational value. Hence,** it yields the robust capital markets and economies to attain high level operational accountability and transparency (Roy, 2012, pp.17-19). The corporate governance illustrates an arena for country-wise regulatory improvement of governance mechanism. According to Chakrabarti *et al.* (2007, p.6); Klapper and Love (2004, p.404) India has sound regulatory framework for corporate governance; however, poor implementation of these regulations has established the gap between de-jure and de-facto. The

global financial crisis constrained corporations for good-fair governance structures and practices (Kumar and Singh, 2013, p.88).

The predominance of family owned and promoter controlled businesses has been an issue for Indian corporates (Chakrabarti *et al.*, 2007, pp.21-22). The appointment of directors, shareholders' interest, equity ownership, ethical code of conduct mapped to be operational glitches within Indian corporates (Aggarwal and Kaur, 2012, pp.81-83). The board members are apprehensive about association of stock ownership and organisational performance. The corporations and shareholders upholds contractual affiliation to share profits and assets of an establishment. The shareholders' democracy specifies precipitate analogy between corporates and political governance (Verma, 1997, p.3). Moreover, shareholders' democracy is not a principle of corporate system. However, corporate governance can be concerned with the ownership rights (Sarkar and Sarkar, 2000, p.190).

The corporate governance mechanism encompasses operational transparency and accountability, shareholders interest and active participation, shareholders' and directors' independence, formulation and implementation of organisational strategies and policies (Hothi *et al.*, 2011, p.14; Oman, 2001, p.31). The affiliation of corporate governance and stock market instigated new set of challenges towards organisational value and corporate governance (Dharmapala and Khanna, 2008, p.27). Disclosure barriers and inadequacy of financial information caused major damage towards corporate governance practices in India (Raju *et al.*, 2012, pp.88-89). The stabilised political structures and constitutional intersections facilitates vital controlling mechanism for corporations; moreover, investors freedom and enticements for government (Ananchotikul and Eichengreen, 2009, pp.171-173; Kakabadse *et al.*, 2001, p.24).

1.2 Research and Purpose Statement

The research methodology directs towards systematic solution for the problems. The pragmatic research model and qualitative approach has been incorporated for the development of study. The pragmatic approach

facilitated qualitative framework of study and formulation of findings based on research. The identification of gaps in literatures and actual corporate governance practice in selective Indian corporations is the basic criteria of the study. As the organisational accomplishment is contingent towards social and economic facets. The primary research objective is an identification of problems and solutions for corporate governance practices in India. The study in this report, primarily integrates critical evaluation of traditional corporate governance parameters, distinct ownership patterns, influence of directors and large board size to suggest sustainable practices for Indian organisations. Furthermore, composition of board members and their role in Indian organisation needs critical investigation.

The Imperfections in regulatory and governance framework, impact of corporate governance reforms on shareholders, ownerships and controlling mechanism indorses extents for vital investigation. The relationship between organisational performance and remuneration policy is further critically determined in this report. The participants of external audit, benefits of internal control and risk management mechanism for Indian corporations are the aspects considered for investigation. The convergence of Indian accounting system with international accounting standards instigated investigation of IFRS benefits for better corporate governance. Moreover, compliance of Indian organisation with Clause 49 and problems in current corporate governance norms are critically evaluated. This report will also determine effects of ownership structures on the vital controlling mechanism. The role of independence of board and audit committee is vital for stakeholders' rights. The corporate governance issues were examined in detail with various perspectives to establish guidelines on principal-agency problem, board structures and its functioning, ownership structure and its role in corporate practices of Indian organisations.

1.3 Outcomes of Study

The primary findings of this research states that, Indian organisations are seems to be complying with legislative norms and moving towards excellence of their executives and extensive organisational results. In private sector, especially family owned businesses dominates Indian corporate sector. Interestingly, the number of women executives seems to be increasing in Indian organisations. The directors on board primarily performs advisory role; however, the involvement of board members in day to day organisational activities can excel and deteriorate corporations in long run. The remuneration policy significantly influences board members performance. The audit committee facilitate affirmation towards the board on manifestation of an efficient internal controlling environment. The personal relationships with the external audit firms plays questionable role that disturbed shareholders confidence. Therefore, organisations are directed towards the adoption of IFRS. The risk management and internal control policies has the direct relationship with enterprise operations and growth. However, some organisations rely on the top management.

The clause 49 has been overarching legal provisions in-accordance with corporate governance. The Indian organisations quoted the need of **good corporate governance practices due to India's convergence with global** economy. Moreover, the corporate governance mechanism has been widely practiced phenomenon in India. Interestingly, organisations are turning towards corporate governance as business and socio-economic successive tool rather than only stringent mechanism. The problem of dominance and conflicts of majority-minority shareholders became devastating fact for the organisations in India. The implementation of debt restructuring mechanism can prevent corporate governance problems for SMEs. Moreover, adoption and implementation of good corporate governance mechanism can develop organisational health for long term. The periodic reviews and corporate governance audits of SEBI at the implementation and adoption level can procure key changes in the Indian corporate governance practices.

This study of corporate governance provide insight towards actual Indian corporate governance practices. Moreover, this report is competent enough to illustrate apiece trait in governing practices and existing glitches in the system. Furthermore, the recommendations of this study may serve as a model of good practices to emulate for Indian corporations. However the results of the study should be viewed in the background of limitations such as sample size, sampling technique, veracity of available information and the duration of the study.

Chapter 2

Literature Review

2. Critical Literature Review

2.1 Introduction: An Overview

During the wave of financial crisis in 1998, corporate governance deficiencies endangered entire economies and stability of global financial system (Claessens and Yurtoglu, 2012, pp.11-20). Moreover, manifesto of governance structures, financial intermediaries, industrialised institutional investors and capital mobilisation became fundamental for the economic development. In transition economies, corporate governance mechanism may induce significant deviation of assets, fictional and stipulated external supply of capital towards organisations (Boycko, 1995). However, assertion of colossal capital and repatriation of profits may dissolve dilemma of good corporate governance subsequently (Shleifer and Vishny, 1995, pp.738-739). The liberalised financial markets, structural reforms, value deregulations, augmented competition exposed organisation for distinctive market forces and amended need for good corporate governance (Claessens and Yurtoglu, 2012, pp.31-36).

The Liberalisation of Indian economy expedited potential for capital extent and capital market. The evolving importance of Indian economy in the world, compelled understanding of its corporate governance structures as intellectual capital and outsourcing resources (Hothi *et al.*, 2011, p.9). The predominance of family owned and promoter controlled businesses has been an issue for Indian corporates (Chakrabarti *et al.*, 2007, p. 6). The appointment of directors, shareholders' interest, equity ownership, ethical code of conduct mapped to be operational glitches within Indian corporates (Aggarwal and Kaur, 2012, pp.81-83). Moreover, incompetent corporate ownership structures, frauds and malpractices, non-transparent accounting practices and disclosures, failures of board, distressed shareholders activism are the causes of corporate governance predicament in India (Som, 2006). Independence of non-executive directors, conflicts between dominant and minority shareholders', legal restrictions for the effective enforcement of corporate laws deterred ethical code of governance in India (Hothi *et.al.*, 2011, pp.10-11).

Since the era of liberalisation, Indian government tailed socialist policies for sustainable ethical code of governance (Kumar and Singh, p.88). The paradigm shift of corporate governance exposed top level management towards new set of challenges in India (Sharma and Gupta, 2012, pp.100-101). Deceiving economic and organisational health has encouraged significance of corporate governance. Managerial oversight barriers and legal norms delayed bankruptcy claims of private capital conditions; moreover, **deteriorated economic conditions constrained corporations' to depend on** peripheral governmental capital resources primarily (Bhasin and Manama, 2008). However, measurement of capital investments were established on capital volume rather than return on investment mechanism ensued disconsolate competition (Kumar and Singh, 2013, p.90).

The securities and Exchange Board of India (SEBI) (1992) was established to survive fiscal crisis and inject steady growth in Indian economy. Corporate frauds were characterised as regulatory capture that intended prerequisite for good corporate governance. The good corporate governance must integrate transparency principles, independence of boards, accountability and fairness, social-environmental concern of stakeholders, unbiased directorate selection procedures for formulation and implementation of organisational policies and controlling operational strategies (Hothi *et al.*, 2011, p.14). The improved corporate governance contribute towards an establishment of international financial markets and facilitates productivity growth. However, the corporate insiders and dominant shareholders are restrictive forces of corporate governance. Good political governance can overcome country-wise development and regulatory capture obstacles and reinforce good corporate governance (Oman, 2001, pp.30-31).

2.2 Definitions of Corporate Governance

The corporate governance plays central role in stimulating capital flow development and depressing capital cost on investment undertakings. The corporate governance comprises intensification of corporate social responsibility and active participation of both stakeholders and shareholders. The accountability **and fortification of shareholders' interest** encompasses cultural, legal and economic foundations (Claessens and Yurtoglu, 2012, pp.60-65).

The number of authors has defined the term corporate governance as follows, According to Dalei *et al.* (2012, p.196) Corporate Governance could be defined as, "ways of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors".

The SEBI Committee defines corporate governance as, "Corporations pool capital from a large investor base both in the domestic and in the international capital markets. In this context, investment is ultimately an act of faith in the **ability of a corporation's management. When an investor** invests money in a corporation, he expects the board and the management to act as trustees and ensure the safety of the capital and also earn a rate of return that is higher than the cost of capital. In this regard, investors expect management to act in their best interests at all times and adopt good corporate governance practices. Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company" (SEBI Report, 2003, p.1).

The OECD defines corporate governance as**,** "Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays

down the rules and procedures for decision-making" (Deloitte Touche Tohmatsu Czech Republic Pvt Ltd., 2013).

According to Cadbury Committee (UK) (1992), "Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The **shareholders' role in governance is to appoint the directors and the auditors** and to satisfy themselves that an appropriate governance structure is in place. The **responsibilities of the board include setting the company's** strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their **stewardship. The board's** actions are subject to laws, regulations and the shareholders in general meeting" (Cadbury Committee Report, 1992, p.14).

According to the Institute of Company Secretaries of India (ICSI), "**Corporate Governance** is the application of best management practices, compliances of law in letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders" (ICSI Report, 2009, p.2).

According to Shri N.R. Narayana Murthy, Chief Mentor, Infosys Ltd, "Corporate governance is maximizing the shareholder value in a corporation while ensuring fairness to all stakeholders, customers, employees, investors, vendors, the government and the society-at-large. Corporate governance is about transparency and raising the trust and confidence of stakeholders in the way the company is run. It is about owners and the managers operating as the trustees on behalf of every shareholder - large or small" (NFCG, 2004).

2.3 Corporate Governance Framework

2.3.1 Corporate Governance Mechanism

Corporate governance has significant arena of analysis within the finance discipline for decades. However, discrepancies in the quality of

corporate governance in developing countries diminished gap concerning governance standards and practices (Chakrabarti, 2005, pp.2-3). Corporate governance is about responsibility and power that determines organisational structures, allocation of manpower and financial resources, research and development, mergers and acquisitions, top level management recruitments, distribution of dividends and investments (Gourevitch and Shinn, 2005, p.1). Generally, corporate governance provides understanding of institutional provisions for relationship between corporate and economic actors interested in organisation (Letza *et al.*, 2004, p.242). The corporate governance can be an administrating organisational structure that directs and affects creation and distribution of wealth. However, blockholding encourages political conflicts within the country (Gourevitch and Shinn, 2005, p.2). Thus, governance mechanism reflects public and regulatory polices of a firm.

The classical theories and companies law illustrates human capital to be insignificant than physical assets. Moreover, corporate authority and power are legally built on the possession of raw materials, financial capital and means of production where an organisation destined as solid and enduring entity with a clear internal and external environmental division (Letza *et al.*, 2004, p.255). Furthermore, it also has an influence over social **dimensions such as mobility, stability and fluidity within country's economic** environment (Gourevitch and Shinn, 2005, p.4). The structural characteristics of Indian corporate sector established corporate governance problems in India (Varma, 1997, p.14). However, such lucrative mechanism stimulates corporates and political institutions for conflicts, scams (Gourevitch and Shinn, 2005, p.11). **Thus, today's business scenario declines compatibility of** this type of corporate governance model. The implementation and development of good corporate governance norms is an effective step; nevertheless, the implementation of those norms seems to be more challenging in case of India (Chakrabarti, 2005, p.22).

The corporate governance compromises incentive organisational framework to fascinate human capital and external finances for effective,

efficient organisational activities and means for evading corruption (World Bank, 1999 cited in Dahiya and Gupta, 2001, p.3). The investment decisions is determined as one of the most fundamental financial constraints that can abolish firm value and distort competent allocation of investment (Mozumdar and Agca, 2008; Almeida and Campello, 2007; Stein, 2003 cited in Francis *et al.*, 2013, p.57). Corporate Governance reviews agency problems specifically as distinct return on investment techniques of financial suppliers for the corporations (Shleifer and Vishny, 1997, pp.737-742). The outside agencies and stock markets has an influence over managerial actions of the leading companies in India (Chakrabarti, 2005, p.23). However, influence of these entities has been restricted to limited organisations in the country. The agency problem arises in low investment protected countries; thus an establishment of good corporate governance mechanism is significant in these countries (Doidge *et al.*, 2004; Nevona, 2003 cited in Francis *et al.*, 2013, p.58).

In last few years, development of norms for listed companies in India has been crystallized (Chakrabarti, 2005, p.23). Hence, the complications of private corporations has been unaddressed since decades. The corporate scandals, discernment of materialistic, self-dealing and unfaithful CEOs has driven-out number of investors out of stock-market and arose huge non-transparent perks and high remuneration packages in senior executive group of the corporations (Dutta, 2006, pp.10-11). The outcome of business scams and failures expressed prerequisite of corporate governance. The agency theory illustrates that, magnified monitoring of managerial actions and incentive problems can affect organisational investment behaviours and cause financing frictions (Jensen, 1986 cited in Francis *et al.*, 2013, p.70).

The conflicts between minority and dominant shareholders is the central corporate governance issue in India (Varma, 1997, p.2). The problem of dominant shareholders can be categorised under – Public sector units, where public holds minority stake and government is dominant shareholder; MNCs, where overseas parent is the dominant shareholder; Indian business groups, where promoters are dominant shareholders and government own

financial establishments that holds comparable stake and general public holds the balance (Varma, 1997, p.3). The duty of board of directors is to develop **shareholder's** value; however, corporations should contemplate interests of employees, customers, financial suppliers and the environment to protect shareholders value and avoid distress (Dutta, 2006, p.11). However, shareholding and Stakeholding is less valuable and redundant (Letza *et al.*, 2004, p.256). Moreover, board of directors cannot dissolve this conflict even theoretically that encouraged corporate governance abuses under the shield of shareholders democracy in India (Varma, 1997, p.3). The audit shortcomings, connivance with management and discloser irregularities are major issues in India that demands formulation of stricter regulatory bodies and corporate ethos (Dutta, 2006, p.13).

The poor firm level corporate governance response can be improved through free cash flow investments due to the constraints of limited access towards external funds. Thus, organisations have to depend on internally generated funds intensely (Francis *et al.*, 2013, pp.58-59). Moreover, poor corporate governance leads to **country's** financial crisis (Johnson *et al.*, 2000 cited in Sur and Chakraborty, 2006, p.25). The good record of corporate governance promulgates higher profits, sales growth and market value, lower capital cost that facilitates greater access towards external finances (Naidu, 2005, p.5 cited in Sur and Chakraborty, 2006, p.23). However, accessibility of funds is one of the major issues related to corporate governance in developing countries (Francis *et al.*, 2013, p.60). The poor corporate governance hinders organisational creation and development (Chakraborti, 2005, p.51 cited in Sur and Chakraborty, 2006, p.26). However, superior corporate governance and capitalised investment opportunities can diminish financial constraints and improve efficient allocation of capital (Francis *et al.*, 2013, p.70).

The movement of corporate governance amended through publication of Cadbury Committee Report (1992) (Sur and Chakraborty, 2006, p.27). The traditional focal shift of corporate governance on ethical code of conduct, accountability, transparency, disclosure other than agency conflicts

developed as an instrument for integrating environmental and social concerns into decision making procedures to benefit employees, consumers, communities and ultimately financial investors (Gill, 2012, p.452). The development of corporate governance may be based on **county's** experience rather than the cost of corporate sector growth. These corporate structures evident to be incompetent, unsuccessful in highly competitive and deregulated Indian economy. However, these problems of corporate governance abuses can be dissolved through regulatory forces and capital market (Varma, 1997, p.15). Corporate social responsibility and corporate governance is inseparable in global economic landscape; therefore, an effective design of corporate governance as corporate social responsibility will generate equitable global business environment (Gill, 2012, pp.477-478).

2.3.2 Structural Reforms

Since liberalisation (1991), Indian corporate governance was began as self-regulatory mechanism in form of industry rather than rule of law and undergone substantial corporate governance reforms. Therefore, SEBI (1992) was established as securities market regulator to prevent corporate governance from deterioration. (Aggarwal *et al.*, 2005; Bhattacharyya and Rao, 2005; World Bank, 2005 cited in Raju *et al.*, 2012, pp.76-78). The corporate governance reform agenda comprises amendment of supervisory guidelines for financial institutions, capital markets, adaption of macroeconomic policies and exchange rate policies for consolidation of competition policy and new open financial environment (Ananchotikul and Eichengreen, 2009, p.153). Corporate governance instigated management of agency system to adulate disproportionate controlling rights greater than stock ownership. The connections among stock market development and **corporate governance caused changes in firm's value that imposed** significant challenges (Dharmapala and Khanna, 2008, p.27).

Corporate governance structures plays vital role in enhancing organisational sustainability and performance (Ehikioya, 2009; Iwasaki,

2008; Kim and Cho, 2007; Erickson *et al.*, 2005 cited in Kumar and Singh, 2013, p.88). The corporate governance reforms have substantial remuneration capability in terms of equity market and corporate bond developments (Ananchotikul and Eichengreen, 2009, p.172). However, with an exception of informative traits on managerial remuneration classified corporate governance towards bottom (Pic, 1997). The variations in Indian corporate governance reforms exempted large group of firms' from complex rules and reforms that created overlap in features of non-affected and affected firms. Moreover, the Institute of Chartered Accountants of India (ICAI) was disastrous to act against noncompliance with disclosure norms, failed audit reports and erring auditors (Franklin *et al.*, 2005 cited in Raju *et al.*, 2012, p.79).

The gradual movement of an Indian economy towards market-based economy rather than controlled economy with market capitalisation of all listed companies has been seen. However, capital markets in India are promising but still weak for the corporate control (Standard and Poor, 2009; Sehgal and Mulraj, 2008 cited in Kumar and Singh, 2013, p.88). The violation of newly formed corporate governance rules decoupled the effects of substantial legal rules and enforcement due to introduction of severe financial penalties (Dharmapala and Khanna, 2008, pp.32-33). As a result, corporate governance in India trailed corporate scams namely, Harshad Mehta (1992), Unit Trust of India (1993), Bhansali Scam (1996), Ketan Parekh (2001), and Satyam Computers (2009); moreover, informative barriers of shareholders and imperfections in financial information had caused imperfect corporate governance (Raju *et al.*, 2012, p.88). However, per capita income and financial development convergence with developed countries may close country's corporate governance quality gap (Ananchotikul and Eichengreen, 2009, p.173).

Intensification of inclusive societal profit in accordance with social and political constituents, without abiding legal structures to provide appropriate corporate control is the vital role of an organisation (Kakabadse *et al.*, 2001, p.24). Moreover, political and microeconomic stability are essential factors

for good corporate governance that facilitates freedom of voice for investors and investment incentives to the government (Ananchotikul and Eichengreen, 2009, p.173). The p**olitical prospect, stakeholders' interests,** mobilisation and social infrastructure influences organisational performance; consequently maintenance and development of appropriate ethical standards entitles for **corporate visibility towards shareholders' activities (Ka**kabadse *et al.*, 2001, p.29). However, incompetent relationship between **firm's financial** performance and level of institutional holdings failed to attain improved investment performance; primarily considering dominant institutional investments (Daily *et al.*, 1998; Pic, 1997). Thus, investors may consider good governance companies that can condense investment risk; although, integrative board involvement models, diverse theoretical perspectives and board attributes affects organisational performance indirectly (Jonnergard and Svensson, 1995; Maassen, 1990; Pearce and Zahra, 1989; cited in Kakabadse *et al.*, 2001, pp.25-28; Agrawal *et al.*, 1996).

2.3.3 Ownership Structures

The trend of privatisation since 90s diversified ownership structures generated governance problems in the country (Dharwadkar *et al.*, 2000 cited in Rajagopalan and Zhang, 2008, p.56). According to Jensen and Fama (1983); Meckling and Jensen (1976); Coase (1937) cited in Shleifer and Vishny (1997, pp.770-772) argued that, the segregation of ownership and control, legal protection of investor rights are the fundamental components of corporate governance. However, concentrated ownership or blockholding mitigates corporate governance mechanism (Jensen and Meckling, 1976 cited in Singla *et al.*, 2013). The limited legal protection and external **financing, impact of executives' actions on firm's value, cost and benefits of** concentrated ownership and political dynamics hinders effectiveness of corporate governance (Shleifer and Vishny, 1997, pp.773-775). The constitutional lending restrictions, interest rate, governing equity ownership, consortium lending extinct financial intermediaries (Dahiya and Gupta, 2001, p.12).

In emerging markets, corporate ownership structures establishes links with external auditors and indicate effects of the agency conflicts on auditor's choice and fees (Fan and Wong, 2005, p.39). The external monitoring of associated groups posed challenges for non-associated groups and performs non-transparent, questionable practices with complicated structures; moreover, political links of these groups in the country isolated them from monitoring and interference (Khanna and Palepu, 2000, p.288). The CEOs are often designated amongst founder's relatives or appointed through government that established common fear of building their own wealth at the cost of shareholders (Ghosh, 2006 cited in Luo, 2013, p.4). Moreover, it does not imply clear distinction of ownership and control in developing economies (Luo and Jackson, 2012 cited in Luo, 2013, p.5). The malpractices within organisations such as non-merit senior management recruitments, manipulation of stock prices and diminutive protection of small investors turned financial institutions blind with family groups' organisational management (Vaghul, 1997 cited in Dahiya and Gupta, 2001, p.13). Furthermore, auditors' failure facilitated degree of freedom for owners to manipulate financial information and cover up frauds. Moreover, if auditors excel their efforts in alleviation of agency conflicts then these additional service would reflect in audit fees. However, auditors' may safeguard accounting information of an organisation to limit and control owners' stealing ability (Fan and Wong, 2005, pp.40-42).

The family owned business groups, domestic and foreign financial institutional ownership exists on the Indian economic landscape (Khanna and Palepu, 2000, pp. 269-270). Predominance of family owned and promoter controlled organisations compelled corporate governance to depend on external structures rather than internal ones for the augmentation of organisational value (Kumar and Singh, 2013, p.89; Chakrabarti, 2005). The primary objective of dominant financial institution was to maximize industrial loans instead monitoring that substantially resulted in poor financial information until 1991 (Khanna and Palepu, 2000, p.288). Theoretically financial institutions were under government control. Thus, controlled enormous sections of Indian private corporate sector (Dahiya and

Gupta, 2001, p.13). Moreover, the absence of incentives monitoring function forced failing organisation for close-down under Sick Industrial Firms Act (1985).

The family-controlled and family-managed organisations opt for low duality and low-proportion of outside directors for better monitoring of managerial actions and complexity (Dalton *et al.*, 2007 cited in Singla *et al.*, 2013). The family groups manages diverse shareholding patterns and family **members' occupancy at all senior level management positions (Vaghul, 1998** cited in Dahiya and Gupta, 2001, pp.15-18). Moreover, misalignment of minority and majority shareholders goals determines expropriation of minority shareholders wealth is considered principal agency problem (Young *et al.*, 2008 cited in Singla *et al.*, 2013). However, family-controlled and family-managed organisations behave distinctly due to dissimilarities in objectives and preferences in accordance with private or shared controlling benefits (Singla *et al.*, 2013). Thus, the traditional agency problems emerges in new ownership structures; where executives aim to maximize own interest rather than shareholders interest (Rajagopalan and Zhang, 2008, pp.59-60). The theoretical assumptions of Agency theory depicts that, the issues of identity and objective differences in blockholders are the implications of sharing private control benefits (Holderness and Sheehan, 1988 cited in Singla *et al.*, 2013). However, blockholding can be effective in pacifying agency issues primarily and may lead towards secondary agency disputes at the expense of minority shareholders (Dalton *et al.*, 2007, p.46).

2.3.3.1 Composition of Board

The tremendous potential of growth and investment prospect in emerging economies necessitates well-functioning of corporate governance mechanism for both local organisations and foreign investors. However, weak governance of emerging economies discounts domestics firms in financial markets (LaPorta *et al.*, 2000 cited in Rajagopalan and Zhang, 2008, pp.55-56). In emerging markets, poorly performing CEOs are less likely to lose their jobs considering large domestic shareholders within an

organisation. Moreover, the domestic corporation with large pool of shareholders appears to be linked with negative CEO turnover and poor organisational performance. The large boards may also pose complications for low group cohesion and co-ordination that can slower decision making process and may lead to high conflicts within an organisation (Kumar and Singh, 2013, p.90). Therefore, managers may favour shareholders at the expense of minority shareholders (Gibson, 2003, p.25).

The board of directors serves as shareholders and other stakeholders' representatives as well as monitors performance activities of top management, design and implement strategies, fosters organisational and external environmental links (Ruigrok *et al.*, 2006; Erickson *et al.*, 2005; Jensen and Meckling, 1976 cited in Kumar and Singh, 2013, p.89). Moreover, board of directors are considered to be primary internal governance mechanism. However, lack of incentives, shortage of qualified independent directors, power of dominant shareholders and undeveloped external monitoring systems are key obstacles in the governance reforms within Indian organisations (Rajagopalan and Zhang, 2008, p.55). The larger board size comprises knowledgeable and intellect experts that can be utilised for strategy making decisions to improve organisational performance; however, negative association of board members may hamper organisational value and growth (Kota and Tomar, 2010; O'Connell and Cramer, 2010; Rashid *et al.*, 2010; Cheng, 2008; Bonn *et al.*, 2007a; Ghosh, 2006; De Andres *et al.*, 2005; Bonn *et al.*, 2004b; Dalton *et al.*, 1999; Conyon and Peck 1998; Eisenberg *et al.*, 1998; Yermack, 1996; Pearce and Zahra, 1992 cited in Kumar and Singh, 2013, p.90).

2.3.4 Legality and Corporate Governance

The Indian regulatory framework provides one of the highest level of investors' protection in the world theoretically; however, substantial corruption deteriorated corporate governance structure in the country (Chakrabarti *et al.*, 2007, pp.20-21). Moreover, greater investors' protection enhances investors' financing consent that reflects in low cost and higher

availability of external financing (La Porta *et al*. 1998 cited in Klapper and Love 2004, p.404). Over the period of time, Indian financial markets have accomplished higher growth rates considering major sustainable economic reforms. The distinctive legal systems, variations in governing standards, relationships amongst organisational-specific governance mechanism and country's legal governing of investors protection laws formulates questionable research (Aggarwal and Kaur, 2012, p.84). Moreover, differences in firm level corporate governance mechanism prompts for performance based, market valuation and external financial accessibility problems in the country (Klapper and Love, 2004, pp.405-407).

The establishment of SEBI and National Stock Exchange of India (NSE) ensured fairness, good practice, transparency in trade and regulatory regimes (Chakrabarti *et al*., 2007, p.22). The enforcement of Clause 49 of listing agreements improved enforceability of creditor's rights. For Example: Companies likes INFOSYS are free from family-group dominance or influence and shareholders are central focus of corporate governance. The corporate governance is extremely significant for disseminated and prolonged shareholding of the public listed companies. The Companies Act (1956) directs public listed companies regarding role of directors and SEBI's provisions for the appointment of independent and non-executive directors for appropriate governance (Aggarwal and Kaur, 2012, pp.84-85). Moreover, Indian legal structure provides adequate mechanism with powers towards directors for the free functioning of an organisation (Chakrabarti *et al*., 2007, p.24). However, corporate governance should not be imputed exclusively on independent directors regardless of their nature (Pergola and Joseph, 2009).

The audit committee ensures consummate financial functioning as an important concerns of corporate governance to safeguard shareholders' wealth. The complete alliance of non-independent directors or independent directors is an ineffective mechanism that may accelerate failure of corporate governance (Aggarwal and Kaur, 2012, p.85). Furthermore, restructuring and improving country's judicial quality is far more difficult due to the

involvement of other actors such as politicians, interest groups. The organisation-specific corporate governance is more important in incompetent judicial and fragile shareholder protected system (Klapper and Love, 2004, p.423). Therefore, organisation-specific corporate governance is more feasible and organisation can improve investors' protection and minority shareholder rights independently. Moreover, good governing organisations rely less on county-specific legal systems to dissolve corporate governance conflicts.

2.4 Theoretical Framework

2.4.1 Agency Theory

In 1991, financial crisis prompted major economic reforms that directed deregulation and privatisation which lead to increased competition and forced investments in research and development. Due to the institutional environment changes business groups had negative relationships with organisational performance within emerging markets (Gaur and Delios, 2006 cited in Singh and Gaur, 2013, p.4). Therefore, emerging markets required innovation and good corporate governance for the process of internationalisation (Singla *et al.*, 2013). However, theoretical framework of corporate governance implies that, organisations may employ bonding and monitoring mechanism voluntarily to mitigate expropriation of outside investors' (Jensen and Meckling, 1976 cited in Claessens and Fan, 2002, p.79). The growing capital demand anticipated increased organisational responsibility towards investors' demand that generated incentive mechanism for improving corporate governance. Moreover, voluntary adoption of governance comprises incentives and ultimately reduces minority shareholders risk that results in reduced share-price discounts and increased access towards external financing (Claessens and Fan, 2002, p.80).

The Agency theory depicts the relationship with vital strategic decision of different owners that possess diverse motivations and preferences (Brickley *et al.*, 1988 cited in Singh and Gaur, 2013, p.5). However,

concentrated ownership and agency conflicts between minority shareholders and owners may entice equity participation of institutional investors to improve minority shareholders credibility (Claessens and Fan, 2002, pp.80-83). In emerging markets, typically families control groups where group can be characterised as, association of firms through cross ownership and stock pyramids (Claessens and Fan, 2002, p.87). This type of certain governance provisions offer competitive advantage; however, business groups exploits markets in order to achieve these advantages (Khanna and Palepu, 2000 cited in Singh and Gaur, 2013, p.7). The dominant agency theory and contracting approaches still considers executive compensation as a ramification of pay arrangement practices that influences institutionally constructed discretion (Otten, 2007 cited in Luo, 2013, p.27). However, these groups may allocate capital within group to avail economic benefits in the period of external financial scarcity; therefore, an agency problem may lead to misallocation of capital that disposes internal markets (Khanna and Palepu, 1997 cited in Claessens and Fan, 2002, pp.87-95).

India is stagnant in the process of market based reform that lead to the transformation of relationships, roles and governance structures that accumulates participants in productive endeavours (Luo, 2013, p.27). Thus, considering these intermittent environmental shifts and institutional transitions agency theory may not be applicable for legally weakly protected investors and unfledged capital markets (Luo, 2013, p.29). Moreover, institutional owners may necessitate governance mechanism due to divergence of managers and owners interest; however, in specific conditions interests of these two parties may not be divergent (Daily *et al.*, 1998). The decisions of internationalisation and innovation depends on organisational governance structure. In this changing institutional environment innovation capability has become essential for emerging markets (Awate *et al.*, 2012; Kumaraswamy *et al.*, 2012 cited in Singh and Gaur, 2013, p.8). However, firms within the developed market may experience negative effects of performance at both lower and higher levels of global diversification (Contractor *et al.*, 2003 cited in Singh and Gaur, 2013, p.9).

2.4.2 Debt Mechanism

Debt mechanism is a decisive mechanism for organisational agency problems with an objective of shareholders value maximisation to restrain counter managerial actions (Dwivedi and Jain, 2005; Khanna and Palepu, 2004). However, potential disciplining mechanism of debt considered weak in concentrated ownership organisational structures (Faccio *et al.*, 2001; Prowse, 1999 cited in Sarkar and Sarkar, 2005, pp.1-2). In India, debt plays an important role of external financing in pre-liberalised and post-liberalised scenario (Dwivedi and Jain, 2005). In an organisation, debt mechanism can be implemented as disciplining mechanism to comprehend agency problems between management and outside stakeholders (Grossman and Hart, 1982; Jensen, 1986 cited in Sarkar and Sarkar, 2005, pp.4-5). The debt mechanism also plays role of corporate governance and institutional capital market in mitigating the expropriating powers of debt (Claessens and Fan, 2002). However, debt mechanism can either pose positive or negative effect on organisational value, growth and performance. The debt mechanism enlightens sensitive issues of governance role in controlling structures and ownership within the organisation (Dwivedi and Jain, 2005; Sarkar and Sarkar, 2005, p.31).

2.4.3 Economic Analysis Model

The economic analysis model is beneficial for optimal governance mechanism that provides selection process of efficient governance structures with the perspectives of profit maximisation, economic rationality, increasing efficiency and organisational value (Roy, 1997; Solomon and Higgins, 1996 cited in Letza *et al.*, 2004, p.256). However, economic rationality neglects the significant role of emotions, values, beliefs, ideology and importance of irrationality in the decision making process and governance (Shleifer and Vishny, 1997, p.276). Therefore, no single model of governance can be applicable for distinctive organisations where corporate governance **ultimately shapes country's social, economic, legal, political system and** behaviours.

2.5 Corporate Social Responsibility and Good Corporate Governance

The distinctive sector-wise regulatory bodies, Ministry of Corporate Affairs and SEBI governs corporate practices in India. The Standard and Poor's study in India observed legal and regulatory environment, market and informational infrastructure (McGee and Bose, 2009, p.229). The corporate social responsibility is recommended in-context with international development and poverty mitigation aspects due to the benefits of contribution towards equity, economic growth and human rights (Blowfield and Frynas, 2005, p.505). The transparency, ethics and accountability within organisation-specific or country-specific corporate governance framework are the prerequisites of good corporate governance. Moreover, good corporate governance practices incorporates growth, organisational performance sustainable productivity, capital growth, intact shareholders' interest, development of organisational value and shareholders' trust (Roy, 2012, pp.17-18). The good corporate governance escalates share price, easily obtains capital and attracts international investors (McGee and Bose, 2009, p.232).

In India, positive relationship amongst organisational value and managerial holdings beyond the inception is constant in family dominated organisations where managers are *de facto* owners (Sarkar and Sarkar, 2000, p.189). Moreover, foreign equity ownership may avail corporate governance and high organisational value benefits in developing countries (Sarkar and Sarkar, 2000, pp.190-191). However, cost of equity is more essential dimension than cash flows that determines financing cost and directs investment decisions. Thus, self-disciplining governance mechanism is more effective to reduce cost of equity and organisational governance that may become substitute for country's legal protection (Chen *et al.*, 2009, p.284). Stock prices and analysts' earnings estimate effects of organisational governance on cost of equity; however, such facets of corporate governance are linked negatively with the equity cost subsequently monitoring inflation and traditional risk factors (Durnev and Kim, 2005; Mitton, 2002 cited in Chen *et al.*, 2009, p.285).

The contemporary corporate social responsibility illustrated voluntarism as recurring feature. Moreover, corporate social responsibility is the means of corporate governance gap filler that arises with the accelerated abundant economic globalisation (Luu, 2013; Blowfield and Frynas, 2005, p.508). The corporate governance parties such as managers, directors, shareholders, customers, employees, banks and lenders, environment, suppliers, vendors and regulators contribute towards corporation's success. The positive association of firm value and corporate governance mechanism affects organisational growth opportunities and cash flow rather than equity cost (Kim and Durnev, 2005; La Porta *et al.*, 2002; Mitton, 2002 cited in Chen *et al.*, 2009, p.286). The weak corporate governance leads to corruption, mismanagement and waste. Therefore, existence of good corporate governance within today's complex and dynamic business environment for sustainable reforms is essential to prevent corporate scandals, frauds, civil and criminal liabilities within an organisation (Roy, 2012, p.19).

Chapter 3

Present State of CG in India

3. Present State of Corporate Governance in India

3.1 Introduction

The rapid pace of globalisation constrained corporate governance for organisational and country-wise benefits. Thus, the structural reforms and institutional frameworks are the prerequisites of good corporate governance for governments and corporations. The corporate governance sets **behavioural norms for executives and stakeholders' that allows freedom** within legally regulating boundaries. Moreover, adoption of international accounting standards for accuracy, clarity and transparency in disclosure of financial information is beneficial for the investors and users of financial information. Corporate governance is tangled with national development, productivity growth and cost of capital (Bijalwan and Shah, 2012, pp.2-3). The corporate governance norms and regulations in India are under constant refinement to attain balanced voluntary and mandatory approaches. Notably, Indian regulations are based on Anglo-Saxon model of corporate governance that limits its application in Indian business environment (Deloitte Touche Tohmatsu India Pvt Ltd., 2013; Kaushik *et al.*, 2012, pp.4-5).

3.2 Developments in Corporate Governance Code

Since liberalisation in late 1990s, Indian regulators, organisations and industrial representatives have undergone substantial efforts of corporate governance restoration in India. The structural reforms accelerated after Satyam scandal in 2009 (Deloitte Touche Tohmatsu India Pvt Ltd., 2013; MCA, 2009). The current Indian corporate governance regime associate both mandatory and voluntary requirements. Moreover, guidelines of Clause 49 (2004) are mandatory for the listed companies. The economic expansion, foreign direct investments, increased presence of domestic and foreign investors and access towards global capital markets by being listed on distinct international stock exchanges stimulated restructuring of corporate governance laws in India (OECD, 2011; OECD, 2010; Afsharipour, 2010, p.1). The main focus of structural reforms was the structure and role of corporate boards, disclosure towards shareholders and internal controls (SEBI, 2003).

3.2.1 Milestones in development of Corporate Governance

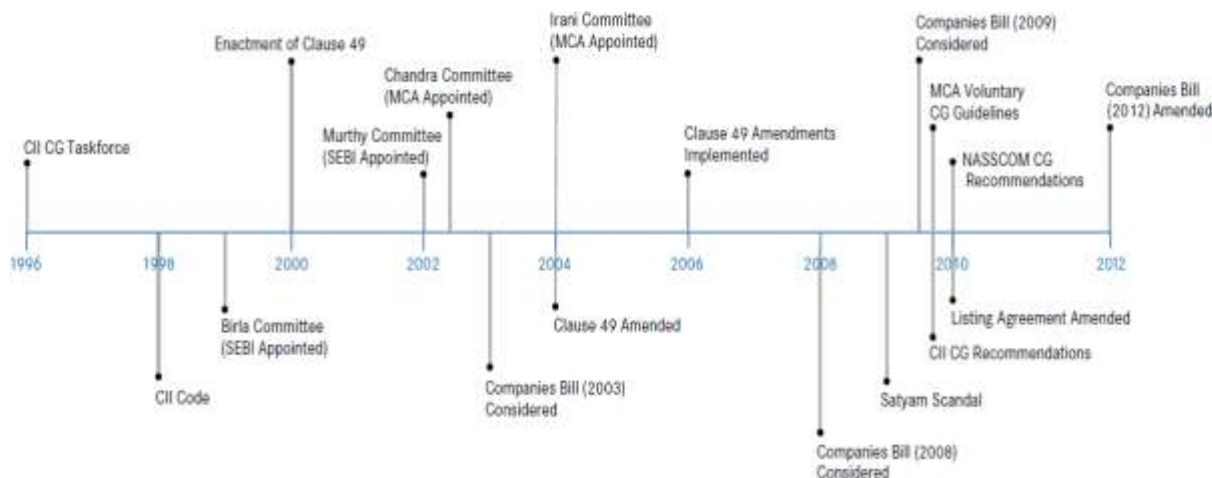


Figure No.1

Source: *Deloitte Touche Tohmatsu India Pvt Ltd, 2013*

The Confederation of Indian Industry (CII) (**India's largest industry and** business association) **launched India's 1**st major corporate governance reform proposal in 1996 and designed taskforce for the development of corporate governance code within organisations in India. The desirable corporate governance code was proposed in 1998 for listed companies (CII, 2009). However, very few organisations voluntarily adopted these governance provisions. The SEBI appointed Birla Committee in 1999 to promote and raise corporate governance standard for listed companies. Birla Committee primarily focussed on the functional and structural improvements of organisational board and disclosures towards shareholders (NFCG Report, 2002). The Birla committee recognised audit committee**'s importance** and made detailed recommendations concerning the composition of audit board. Moreover, committee also recommended organisations to include Management Discussion and Analysis (MD&A) section in yearly report for more transparent disclosure of information for shareholders that was implemented in 2000 (SEBI, 2004).

The Enron scandal prompted adequate evaluation and improvement of Clause 49 that resulted in the establishment of Narayana Murthy Committee.

The main aim of Narayana Murthy Committee was to develop transparency and integrity of **country's stock market** and ensure compliance with corporate governance code in substance. The committee addressed issues of information disclosure towards shareholder, board and audit committee; however, profoundly focused on board structure of corporations and redefined independence of directors, nominee directors (ICSI Report, 2009; SEBI Report, 2003).

The Narayana Murthy Committee recommended training for board members in business model of organisations, quarterly reports on risk management strategies and business risk. Moreover, SEBI amended the Clause 49 in 2004; according to the recommendations of Narayana Murthy Committee. According to the committee, organisations should affirm accessibility of audit committee or unfairly treated whistle-blowers. Moreover, **Murthy's report caused changes in corporate governan**ce requirements in regards with corporate boards, audit committees, CEO/CFO certification of internal controls and shareholders disclosure that constituted major transition of governing and disclosure standards within Indian corporations (SEBI, 2013; Afsharipour, 2010, pp. 5-6).

The Ministry of Corporate Affairs formed Chandra Committee in 2002 chaired by Shri Naresh Chandra to examine corporate auditing and independent directors (CII, 2009; NFCG, 2002). The Naresh Chandra committee made recommendations for disqualification of directors from assignments, prohibition on auditors for performing non-audit services and need of compulsory rotation of partner auditors. In 2004, Irani Committee was constituted under J.J. Irani, director of Tata Sons, Ltd. for the evaluation of Companies Act (1956) mainly considering merger of best global corporate governance practices with the needs of growing Indian economy. Moreover, these changes were applicable for all the corporations-listed and non-listed companies on stock exchanges. Thus, introduced new corporate governance framework for organisations in India.

The Irani Committee recognised requirements for small organisations; thus, recommended wider set of organisational classification and exemptions for just than private or public firms (CII, 2009; Companies Bill, 2009). The Companies Bill (2009) was introduced in Lok Sabha; thus, Standing Committee and Department of Finance examined bill in detail for further amendments (Companies Bill, 2012; MCA, 2009). In 2009, CII and National Association of Software and Services Companies (NASSCOM) formed Corporate Governance and Ethics Committee under Shri Narayana Murthy (Afsharipour, 2010, p.10; CII, 2009). The committee emphasized on stakeholders, shareholders rights, audit committee and whistle-blower policy.

In 2011, Deloitte's Global Centre for Corporate Governance presented an overview of legal and regulatory initiatives towards escalation in number of women serving on corporate boards around the world. Since, the boardroom diversity and number of approaches to increase board diversity for executive and non-executive directors has been discussed since decades (Deloitte Global Services Ltd., 2011). Moreover, from corporate governance perspective the composition of individuals from distinctive backgrounds on board can improve organisational functioning and can bring different perspective on problems. The Ministry of Corporate Affairs proposed mandatory requirement for organisation having at least one female independent director amongst five or more independent directors on a board (Deloitte Global Services Ltd., 2011, p.10). The Companies Bill (2012) is expected to become law in 2013 considering Indian corporate legislation and current business practices. Companies Bill (2012) will replace Companies Act (1956) that will bring major governance improvements in Indian Corporate sectors including stakeholder, auditors, investors' protection and interests (Deloitte Touche Tohmatsu India Pvt Ltd., 2013).

3.3 Key Issues in Corporate Governance

The primary difference in enforcement problems is the corporate governance approach on disciplining the management and its accountability. The western approach toward corporate governance focusses mainly on the alignment of shareholders actions with regulating management actions; thus, ownership is reasonably dispersed. However, agency problems in India primarily exists between dominant-majority shareholders and stakeholders (Kaushik *et al.*, 2012, p.25). These dominant or principle shareholders monopolise organisational resources to attend their own needs. The global corporate governance norms focus on boards, committee's, independent directors and management of CEO succession (OECD, 2011). In Indian context, board of directors are not much empowered and subordinate to the shareholders. Therefore, conflicts between majority and minority shareholders becomes threat for corporate governance in India (ICSI, 2010; ICSI, 2009).

The board members and chairman of Public Sector Enterprises (PSEs) are usually appointed with the ministry led by bureaucrats rather than professional managers' console that may include political considerations for organisation's strategic and operational decisions (MCA, 2009). Thus, ownership structures has adversely affected organisational performance. The Companies Act (1956), Central Vigilance Commission (CVC), Controller and Auditor General of India (C&AG) and Administrative Ministries governs mandatory corporate governance guidelines for Public enterprises. The MNCs in India have acquired better corporate governance compliance in-accordance with global standards for transparency and accountability (OECD, 2010). Moreover, MNCs at times have encouraged greater transaction risk for benefits of their parent companies that endangered interest of minority shareholders within Indian affiliates.

The Family-promoter owned business predominates Indian corporate sector where disproportionate control has been exercised (Kaushik *et al.*, 2012, pp. 8-9). The Family businesses have most complex business structures to prevent corporate governance abuses. There has been

enormous increase in market capitalisation of Indian family businesses. The **promoter's exercise**s influence widely in directing and controlling organisational activities even though companies have large base of public shareholders and are listed on stock exchanges (Centre for Corporate Governance India, 2013). The superior position of these promoters control organisational resources and information (ICSI, 2010; ICSI, 2009). However, the recent legislative amendments in Indian constitution will provide necessary regulatory provisions for the corporations that may prove to be restrictive major for corporate frauds.

3.4 Enforcement Challenges

Indian corporate governance framework provides one of the highest **protection towards shareholders, stakeholders, investors' rights and interest** (Chakrabarti *et al.*, 2007, pp.21-22). However, enforcement of these corporate governance norms is a vital hindrance towards movement of good corporate governance in India. The Public Enterprises and MNCs have witnessed advancement in terms of corporate governance standards. The Family businesses dominate Indian market where 663 out of 983 listed companies are family business (Credit Suisse, 2011). Moreover, promoters of these corporations exercise undue direct control over corporations.

According to PRS Legislative Research [1](PRS, 2009) has revealed that, there are 53,000 pending cases with Supreme Court, 4 million with High Court, and 27 million with various District Courts. This backlog of India**'s** judicial system raised pertinent questions on enactment for recovering dues of shareholders (PRS, 2009). The regulators such as SEBI, MCA and NSE shares jurisdiction in Indian market (Centre for Corporate Governance India, 2013). However, they are bound to overlap. Notably, Civil Courts has been barred from hearings of corporate frauds; SEBI is entitle for such hearings and amount collected will go towards consolidated fund of India (Kaushik *et al.*, 2012, p. 13).

[1] ** PRS Legislative Research (PRS) is an independent research initiative that works with the Members of Parliament (MPs) across party lines to facilitate research support on legislative and policy issues.

Chapter 4

Research Methodology

4. Research Methodology

4.1 Introduction

In 1990s there was a development movement of new methodologies for carrying out studies of educational interventions under the label of research design (Collins *et al.*, 2004, p.15). The research methodology is a vital step for construction of research design and methodology for collection of the data. The research design establishes an infrastructure for the researcher to collect and analyse data with an effective approaches systematically. Thus, research has been defined as, "a systematic investigation or inquiry that is designed to collect, analyse, interpret, and use data to understand, describe, predict, or control an educational or psychological phenomenon or to empower individuals in such context" (Mertens, 1998 as cited in Hà, 2011, p.190). However, complexity of research methods in recent times has been increased dramatically. The research benefits for an establishment of relationships among local and similar events. The distinctive theories refers to paradigms that influences the way of information is examined and elucidated. Thus, the features of these paradigms defines direction of research and forms basis for methodology and research design.

The research is a dialect that refers to search of knowledge. Research methodology directs towards systematic solution for research problems (Kothari, 2004, p.8). According to Bogdan and Biklen (1998, p.22) term **paradigm can be defined as "a loose collection of logically related assumptions, concepts or propositions that orient thinking and research".** According to Naughton *et al*. (2001, p.32) paradigm basically includes three elements- nature of understanding, approach and principles for validity. Moreover, Creswell (2003) and Neuman (2000) claims research methodology as interpretive framework. This chapter describes approaches that are used in order to identify gaps between theoretical framework of corporate governance and actual practices within organisations in India.

4.2 Research Paradigms

Mackenzie and Knipe (2006) classified theoretical research paradigms as positivist, interpretivist, constructivist, transformative and pragmatic are explained as follows:

4.2.1 Positivist Paradigm

Positivist or Postpositivist paradigm is referred as scientific research or scientific method based on empiricist, rationalistic philosophy (Mertens, 2005, p.8). This type of paradigm can be applicable for social world assumptions. The purpose of positivists is to assess theory or describe experience through observations and measurements. Moreover, the nature of this model is holistic, inductive intuitive and exploratory with the qualitative findings. However, this type of research is generally associated with quantitative data collection methods and analysis.

4.2.2 Constructivist and Interpretivist Paradigm

Interpretivist paradigm is based on impact of understanding and views of a participant (Mackenzie and Knipe, 2006, p.198). This type of research mainly generates and develops theory or patterns rather than following existing theory throughout research process. Moreover, constructivist depends upon qualitative or a combination of both qualitative and quantitative techniques of data collection and analysis.

4.2.3 Transformative Paradigm

Transformative paradigm deals with an inquiry of intertwined politics and political agenda that may contain transformation actions for participants, individuals or institutions. The combined data collection methods such as Constructivist and Interpretivist provides structure for further development using multiple perspectives (Mertens, 2005).

4.2.4 Pragmatic Paradigm

Pragmatic model does follow any systematic philosophy, however; it focuses on origin and type of research problems (Somekh and Lewin, 2005). The mixed methods of research can be used with the model. The Pragmatic model comprises research problems and application of distinctive approaches for the understanding of problem as a central activity. The data collection and analysis method provide insights into questions with zero philosophical loyalty (Creswell, 2003, p.11).

4.3 Methodological Approach

According to Walter (2006) methodology is a frame of reference for research or overall approach of research linked with theoretical framework or paradigms and systematic modes used for data collection and analysis purpose.

4.3.1 Quantitative and Qualitative Methods

The quantitative and qualitative methods are often used as data collection methods for distinct disclosures. These methods are referred to the different nature of knowledge, understanding, purpose of research, data collection and analysis, data representation and generalisation (McMillan and Schumacher, 2006, p.12). The qualitative data is represented using thematic explorations in the form of words, pictures, icons; however, quantitative data is represented through statistics in the form of numbers. Thus, these data collection methods can be used in combination according to the requirements of research. The qualitative and quantitative methods viewed as complementary for an investigation considering appropriate research paradigms (Thomas, 2003). Quantitative research is a phenomenon based or expressed in measurement of quantity or amount. The quantitative research forms basis for behavioural research and aims to analyse likes-dislikes of participants on particular things. Whereas, Qualitative research deals with qualitative phenomenon that primarily involves quality. This type of research also involves in-depth interviews (Kothari, 2004, p.3).

4.4 Research Process

The research process presents a brief overview that comprises series of actions or steps necessary for carrying out effective research. This type of research process helped in the formulation and validation of research methods opted in further development of the report.

4.4.1 Research Problem

The Corporate governance has significantly attracted researchers due to the tremendous country-wise reforms. In India, corporate governance issues are deemed to be distinguishing in-comparison with distinct economies around the world. Thus, research has been conducted for the purpose of understanding and identifying problems of corporate governance in India. The pragmatic model of research and qualitative approach formed basis of the research methodology. The pragmatic model facilitated central activity of identifying problems and solutions for corporate governance problems in India. In terms of qualitative approach specific Indian organisations were selected and interviews were conducted. Moreover, relevant literatures of corporate governance in India are reviewed for the evaluation of previous findings in this area. The theoretical concepts of corporate governance contrast corporate governance practices in India, especially; *Agency Theory*.

4.4.2 Overview of Literatures

According to Claessens and Yurtoglu (2012, p.65); Oman (2001, p.30); Shleifer and Vishny (1995, p.738), corporate governance plays vital role in stimulating capital flows within an organisation domestically and internationally. The suppliers of finance towards a corporation expects return on investment. The question of how these suppliers acquire profits from the managers and how do organisations monitor or control managers and prevent frauds are unaddressed. Basically, the role, need and importance of corporate governance within an organisation prompts for critical investigation. Moreover, role and composition of the board, relationship

between remuneration packages with executives performance and effects of ownership structures forms basis for the research. The corporate governance facilitates political and economic stability within the country. Furthermore, competence of legislative and corporate governance framework with Indian economy needs to be determined. The voluntary adoption of good self-governance, incentive mechanism and agency theory can act as remedial mechanism towards problems related to executive's incentives, agency problems and lack of qualified directors' (Francis *et al*. 2013, p.70; Ananchotikul and Eichengreen, 2009, p.173; Rajagopalan and Zhang, 2008, p.55; Claessens and Fan, 2002, p.79; Khanna and Palepu, 2000, p.288; Dahiya and Gupta, 2001, p.3; Pic, 1997). However, India's corporate governance highlights these problems. The limitations of optimal design incentives, fear or distributive politics, role of voluntary mechanism in corporate governance are the major evaluation aspects.

The stock market and corporate governance relationships affected organisations and imposed challenges for Indian firms. Moreover, accounting regulatory bodies in the country has failed against disclosures and financial reporting norms (Raju *et al*., 2012, p.76; Dharmapala and Khanna, 2008, pp.27-33). The poor corporate governance settings in privatisation, relationships between changes in commercial ownerships and within corporate governance entitles for thorough investigation. The Indian corporate governance restructuring variations exempted number of organisations from complex regulatory frameworks. The concentrated ownerships mitigated corporate governance practices (Singla *et al*., 2013). Moreover, established links with auditors, diminutive protection of small investors, political connections and manipulation of stock prices hinders corporate governance of family owned corporate (Dahiya and Gupta, 2001, p.13). The major influential components of board dynamics and allocation of financial resources in concentrated business ownership structures needs critical evaluation. The family-owned business raises and dominates what kind of corporate governance appears questionable. The role of commercialisation, aspects of interaction between privatisation and

corporate governance framework needs further critical evaluation. Moreover, co-operatively owned firms and governing issues seems to be unaddressed.

Institutional investment has established a relationship with organisational performance (Daily *et al.*, 1998; Pic, 1997). Thus, role and governing means for institutional investors within the arena of corporate governance has to be verified. For example, voting or exit? Indian economic landscape provided substantial evidence for concentrated ownerships, domestic and international ownerships (Khanna and Palepu, 2000, p.288). The factors that determines enforcement problems in private and public sector, role of financial institutions in corporate governance alarms for questionable research. The dynamic aspects of institutional changes, corporate governance role to prevent corporate frauds and criminal liabilities needs to be assessed. Since, the institutional investors enhance credibility of minority shareholders (Claessens and Fan, 2002, pp.80-83). Interaction of financing with ownership structures, causes and relationship between institutional environment and ownership arrangements alarms for further evaluation.

The corporate governance mechanism is an operational plan equipped with legislative-regulatory framework for an organisation (Balasubramanian *et al.*, 2008, p.6). The features of governance reforms considering organisational value, size and shareholders interest forms basis for critical investigation. Moreover, corporate governance mechanism privileges shareholders activism, organisational value and economic developments. Hence, provide means to attain organisational transparency and accountability (Roy, 2012, pp.17-19). The role of organisational value, specifications of controlling mechanism for owners and extent of organisational attention towards the enhancement of organisational value within regulatory framework of corporate governance encourage for critical evaluation.

Theoretically, Indian legislative framework is one of the highly investor protective regulator in the world (Chakrabarti *et al.*, 2007, pp.21-22).

Therefore, can legal protection be the substitute for corporate governance and its effects on firm-specific governing mechanism needs detail evaluation. The establishments such as SEBI and NSE are under rigorous surveillance to eliminate frauds and encourage transparent trade practice. In Indian economy, higher growth rates considered major sustainable reforms (Chakrabarti *et al.*, 2007, p.24). The integrity of government in shaping corporate governance practices and regulatory policies put forward under light of investigation considering major political and corporate scandals. Moreover, incompetence of existing accounting norms seeks compulsory adoption and implementation of International financial Reporting Standards (IFRS) to stimulate foreign direct investment and formulation of transparent and accountable financial information. Moreover, enforcements such as compulsory adoption of clause 49 listing agreement (2004) for corporations may opt good corporate governance policies.

4.4.3 Research Design

The construction of research design is based on type of research questions established from theories in relevant literatures of corporate governance. The pragmatic model of research and qualitative method helped in construction of appropriate interview questions for management in organisations in India. The data was collected primarily through interviews conducted over telephone and Skype due to distinctive geographies and economic problems in conducting interviews in-person. Thus, designed method of research has proved to be efficient and cost-effective. The stipulated time period and availability of resources for data collection opted this specific design of a research study.

4.4.4 Research Population

The research population consists of small, medium and large organisations owned privately, publicly and government-controlled within India. Moreover, medium and large organisations are listed on NSE. The respondents of interviews are the members of top management in selected sample organisations.

4.4.5 Sampling Procedure

The method of purposive sampling is used as specific organisations are considered for the data collection purpose. Since, non-probability **sampling involves researcher's judgements about the selection elements to** meet the purpose of the study (Kothari, 2004, p.59). The selection judgements of these organisations was based on operational complexity and governance problems within SMEs, MNCs and Government institutions.

4.4.6 Validity and Reliability of Data

The sincere attempt was made for an assessment of organisational level corporate governance problems within corporations in India. The research instrument was designed to collect desired information and effort was made to prevent obscurities in the instrument. The introductory letter clearly stated the purpose of study that was emailed to the respective organisations and author of this report personally discussed contents with regards to the interview questions. Moreover, the respondents were professionals and expected to have knowledge and understanding of issues under enquiry.

4.4.7 Research Limitations

The samples for research were limited to selected sample organisations. Moreover, only restricted number of organisations agreed for the purpose of the interview. The follow-up activity was implemented through personal and employees of sample organisations. Thus, higher level of response was expected; however, achieved level of response considered to be sufficient for the purpose of study.

Chapter 5

Data Analysis

5. Data Analysis

5.1 Introduction

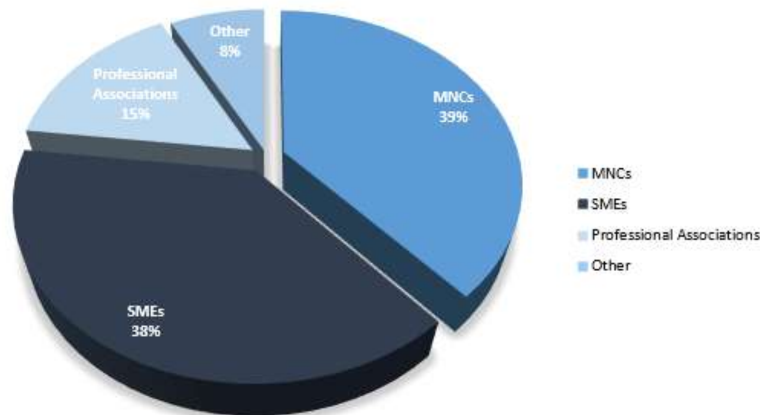
In essence, this research study is mainly concerned with the prerequisites of good corporate governance administration. Moreover, this report aims at identification of issues in followed corporate governance practices within MNCs, SMEs and Government Institutions in India. The fundamentals of any business encompasses wealth creation for all the parties that are partly or fully involved in organisational activities. The corporate governance promulgates interactions between management, shareholders and stakeholders of an enterprise in the pursuit of wealth creation. Corporate governance formulates regulatory structural device to bring desirable features of high standard accountability, transparency, disclosure norms, ethical conduct of directors and managers for increased organisational performance, growth and long term endurance.

In the absence of scrutiny and equilibrium in corporate governance mechanism within an organisation may encourage management for malpractices, frauds and can cause stakeholders scarcity. The growing number of corporate frauds and corporate governance abuse in India, compelled need for identification of governance problems and rectification of corporate governance mechanism. This chapter aims to interpret the data obtained through adopted methodology; moreover, formulate strong arguments based on literatures and findings. The following analysis clearly states and validate research questions based on corporate governance practices within different corporations in India.

5.2 Primary Analysis

The primary data collection is based on interviews and annual reports of the sample organisations. This study specifically investigate issues of corporate governance practices in Indian MNCs, SMEs and Government institutions according with the stated corporate governance norms in India. Moreover, all the existing issues are discussed based on responses received.

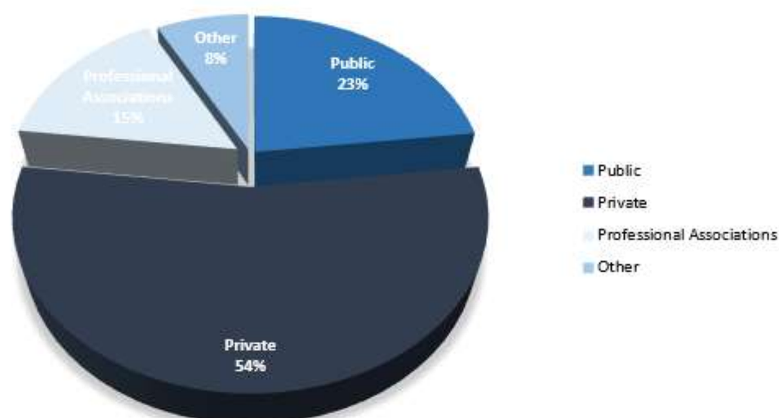
5.2.1 Type of Organisations



Graph No. 1

As shown in Graph No.1 above, samples of distinctive type of business forms such as MNCs, SMEs, Professional Associations and Non Profit Organisations (Other) has been collected to analyse corporate governance practices and issues. Out of total number of corporates interviewed 39% are from MNCs and 38% are from SMEs. The remaining executives interviewed are of professional bodies and industrial organisations, 8% and 15% respectively.

5.2.2 Ownership Type

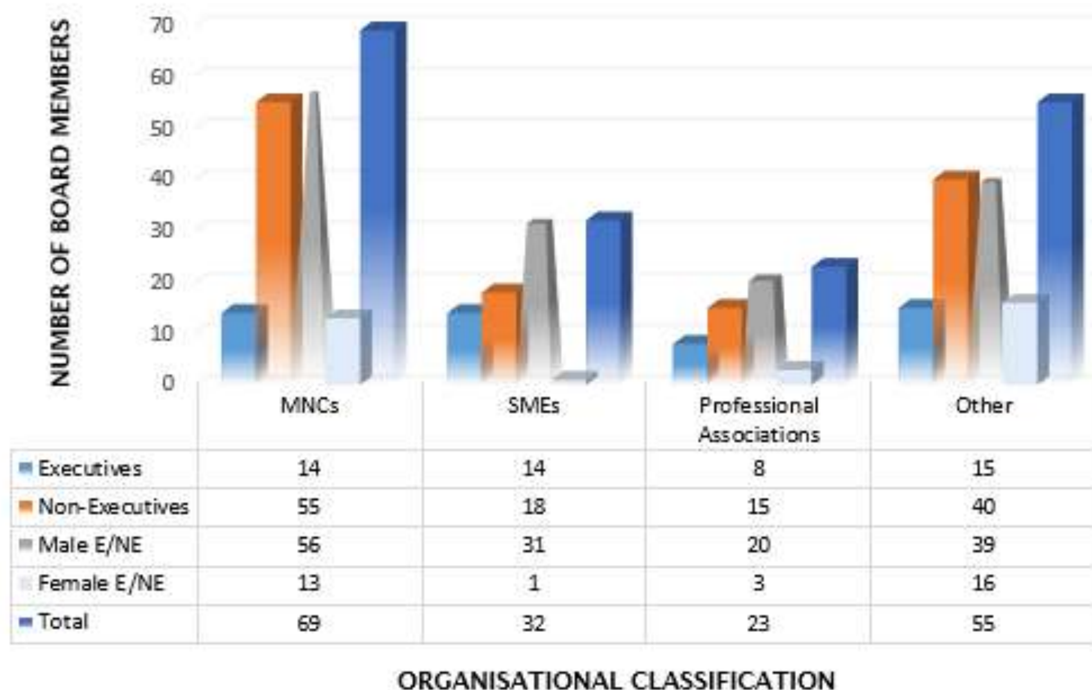


Graph No. 2

According to Graph No.2 Above, out of total number of sample organisations 54% are private sector and 23% are public sector organisations. This clearly signifies dominance of private corporations in Indian businesses.

Moreover, professional bodies and industries association (Other) contributes 15% and 8% of the research samples respectively.

5.2.3 Board Composition



	MNCs	SMEs	Professional Associations	Other
Executives	14	14	8	15
Non-Executives	55	18	15	40
Male E/NE	56	31	20	39
Female E/NE	13	1	3	16
Total	69	32	23	55

Graph No. 3

The Graph No. 3 exhibits that, the non-executive directors dominates the total number of directors on board in all investigated organisations. Interestingly, the number of non-executive directors in Professional and Industrial associations (Other) comprises approximately doubled the number of executives on board. Interestingly, it is noteworthy that two of SMEs had no executives on the board.

As per analysis, within the composition of male and female members on board male members dominates female members in all organisations. However, number of female board members were more in MNCs and Industrial association (Other) than the number of female board members in SMEs and Professional associations. Thus, composition of board within MNCs, Professional and Industrial association (Other) is more diverse than in SMEs.

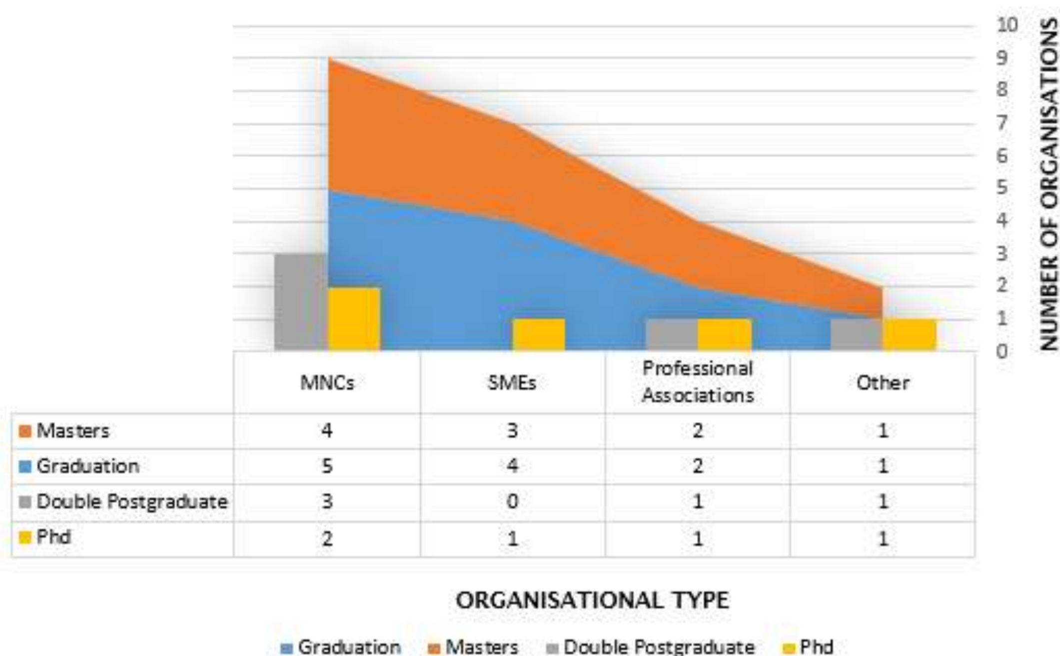
5.2.4 Role of Directors

The board members of sample organisations performs distinctive functions classified on the basis of nature of a sample firm. The duties of directors in MNCs basically includes re-structuring of organisational strategy, monitoring financial, legal and ethical performance, risk management, regulating and advising senior management team. The 70% of directors in MNCs performs additional duties such as periodic reviews of corporate succession planning and corporate social policies. Moreover, 85% of directors of these organisations are chairmen and executives in the public listed companies and are also involved with various government bodies in India. Interestingly, these corporates clearly stated that ensuring the execution of corporate direction and control in-accordance with shareholders interest and value is the primary role of board members.

The samples of SMEs are private family-managed organisations. Out of total number of SMEs, 75% of members on board and Chairmen has direct and indirect control over organisational activities. Moreover, board members play significant role in decision making, strategy making policies, formulation of committees, internal control, appointment of non-executive members, establishing corporate governance structures. 85% of directors lead the day to day organisational activities. Moreover, Non-Executive has significant role play in evaluating and advising on business strategies, mentoring, providing knowledge and experience. The 63% of directors play additional tasks such as business success planning and raising corporate governance standard within the organisations to ensure executives understand compliance obligations with the code of conduct. The directors of professional and industrial associations (Other) perform relatively similar but, additionally different activities as being involved with the government bodies. The major role of these directors comprises identification of emerging challenges in corporate governance structures, development and reinvention of action solutions, strategic and organisational decision making policy suggestions and action agendas for distinctive sectors. Moreover,

these directors also perform important functions such as key appointments, risk management, sustainable development and standards of conduct.

5.2.5 Highest Qualification/ General Board Qualification



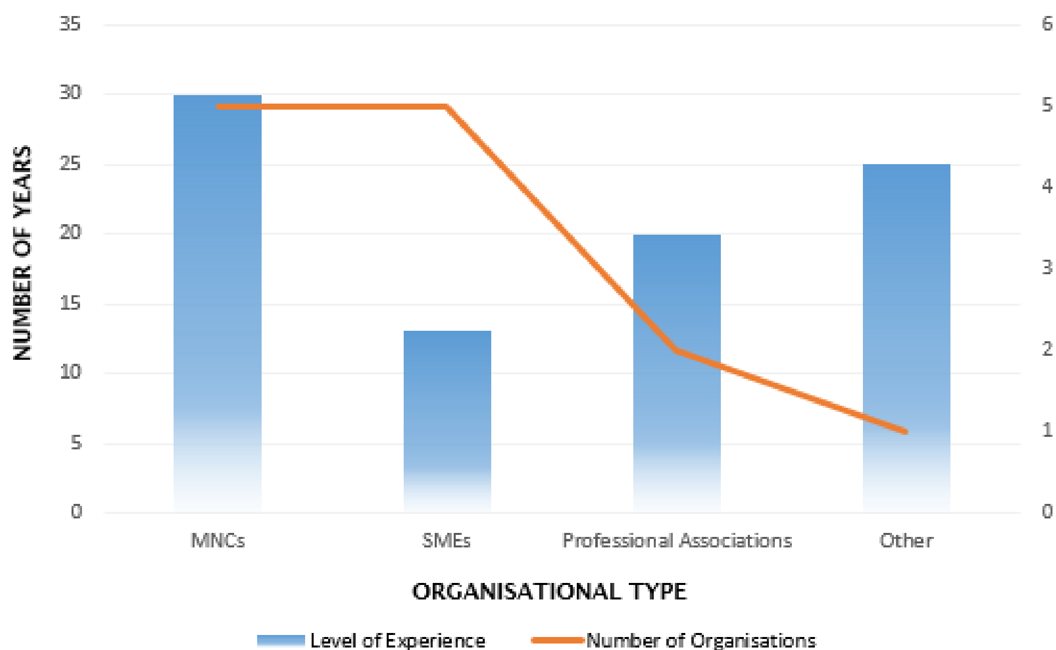
	MNCs	SMEs	Professional Associations	Other
Masters	4	3	2	1
Graduation	5	4	2	1
Double Postgraduate	3	0	1	1
Phd	2	1	1	1

Graph No. 4

As presented in Graph No.4 above, members of board in MNCs, professional and industrial associations (Other) possess highest qualifications as compared with board members in SMEs. Moreover, 6 **respondents hold master's degrees from international universities. The major number of respondents' qualification**s comprises from the field of Engineering, Accountancy, Finance and Science, IT, Law and Management.

The respondents of professional and industrial associations (Other) holds professional qualifications such as Charted Accountant (CA), Company Secretary (CS). Interestingly, one of the respondent in SMEs hold doctorate degree in management. The analysis has also revealed that, MNCs, professional and industrial associations (Other) has high number of highly qualified members on board comparatively minimal qualified members in SMEs. Surprisingly, only one of the respondents from SMEs possessed professional qualification.

5.2.6 Experience of Board Members

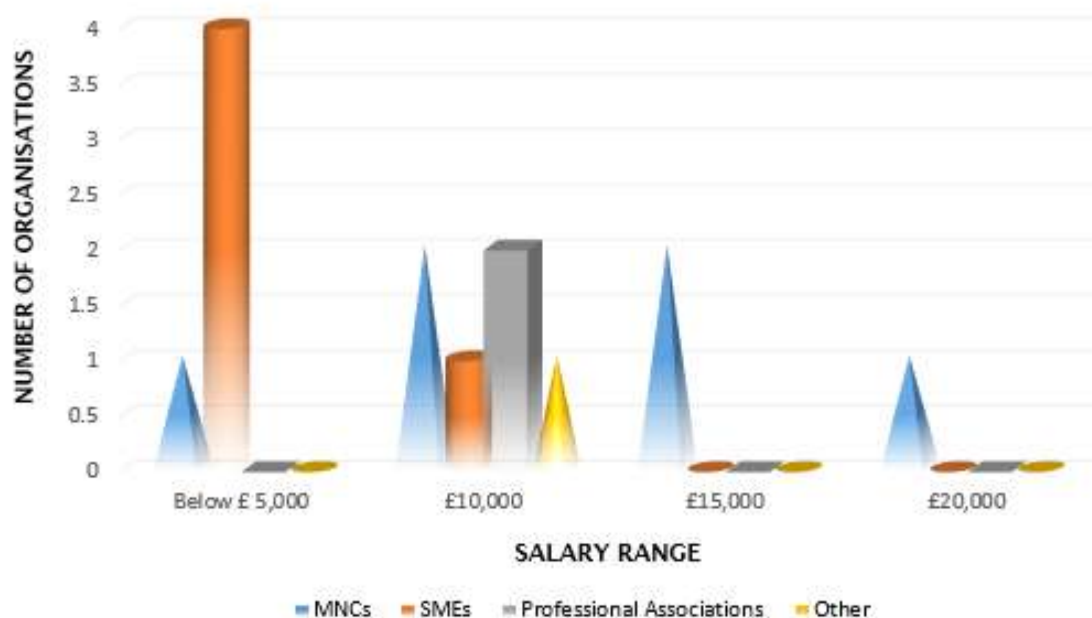


Graph No. 5

The Graph No.5 above represents that, the respondents of MNCs, professional and industrial associations (Other) are highly experienced as compared with the respondents of SMEs. Moreover, 60% of respondents and members of board possess more than 20 years of experience. However, only 20% out of total respondents has lesser experience than of 15 years.

According to the responses received, high number of other board members possess minimum 15 years of experience. However, board members in SMEs has more than 10 years of experience. Interestingly, one of the respondents in SMEs quoted that, board members comprises relatively young-professionally qualified members with minimum years of experience. The analysis has also revealed that, MNCs, professional and industrial associations (Other) has high number of experienced members on board comparatively lower in SMEs.

5.2.7 Salary Range



Graph No. 6

According to the Graph No.6 above, 90% and 10% of SMEs board members were salaried less than £5,000 and £10,000 respectively. The executives of 70% in MNCs were paid more than £15,000; whereas, only 30% of MNCs members of board were compensated less than £10,000. As compared with remuneration packages in MNCs, board members in professional and industrial associations (Other) were salaried low as £10,000.

5.2.8 Remuneration Policy

The remuneration policy has driven individual executives towards performance and organisational success. **Moreover, company's** compensation policies attract, retain, improve and stimulate high performance of workforce. 90% of MNCs respondents follow mixed compensation strategies based on performance that comprises fixed pay, benefits and variable pay. The executive and non-executive directors' remuneration encompasses allowances, benefits, perquisites as fixed constituent and commission as flexible constituent. The board members

reviews performance of non-executives annually. 60% of MNCs respondents revealed that, board members fix any fees/compensation including stock options and sitting fees payable towards non-executive directors within the limits agreed by shareholders. Moreover, the calculation of commission is based on reference with firm's net profit in financial year particularly; according to the sections 198 and 309 of Companies Act, 1956. One of the respondents has quoted that, the terms of reference of directors' remuneration are as per the SEBI's guidelines within Clause 49 and in-accordance with NSE that includes formulation of company's policy on specific remuneration packages for directors.

The 65% of SMEs respondents revealed that, they do not retain any transactions or pecuniary relationship with non-executive directors excluding payment of sitting fees and settlement of expenditures occurred for travel, attending board and committee meetings. The sitting fees are compensated as per provisions within Companies Act, 1956. According to 20% of the SMEs respondents, no other compensation is paid towards board members except commission at 2% and 0.5% of the firm's net profit in accordance with section 349 of the Companies Act, 1956. Furthermore, no other performance related incentives were paid to the board members. However, 10% of SMEs respondents quoted that, in-view of accumulated losses, no commission has been paid towards board members for the year 2012. Surprisingly, severance fee and performance-linked incentives are not stipulated at their terms of appointments.

The professional and industrial associations (Other) strongly encourage and propagate a culture of empowerment, professionalism and creative freedom. Thus, compensation packages consists of base remuneration, perquisites and performance-based incentives. Moreover, analysis has also revealed that, the remuneration packages towards members of board has significant ties with the performance. The remuneration policies and practices are in-line with current market dynamics and remain commensurate with industry norms in-compliance with Companies Act, 1956.

5.2.9 Training Programmes

The directorship carries distinct liabilities and benefits. Thus, members of board needs to undergo various training and development programmes. Respondents has revealed that, corporations particularly invest **in upgrading and updating employees' skills through different channels such** as on-job and classroom-based trainings, external certification-based courses, technology-enabled learning and offer sponsorships for professional education. Out of total number of respondents 78% answered in affirmative while 22% in negative for providing sponsorships towards professional development in their respective trade. 69% of respondents confirmed that, organisations conduct several learning and development programmes comprising Professional Development Programme (PDP) and initial learning programme (ILP) for improving workforce productivity and competencies in technology, domain and processes to enhance human capital value, address business demand and provide opportunities for experimental leadership learnings.

In addition to internal professional programmes and workshops, the top and middle level management are trained through various programmes offered within reputed management institutes nationally and worldwide. The training programmes are designed for members through seminars, workshops based on emerging issues and changes in corporate laws, corporate governance, corporate social responsibility and other matters of interest. Remarkably, all MNCs respondents had undergone professional development programmes comparatively less in SMEs. The respondents from MNCs, professional and industrial associations (Other) has also revealed that, programmes such as Leadership Development Programme (LDP), Executive Development Programme (EPD) and Management Skills Orientation Programme (MSOP) are specifically conducted for board members and 55% have recently attended these programmes. Only 30% of SMEs respondents had recently undergone management development programmes.

5.2.10 Audit Committee

According to the responses received, audit committee within an organisation reassures the existence of a competent internal controlling environment towards the board members. As, the audit committee is authorised to scrutinise any action and trail any required information from an employee within its terms of reference. The analysis has revealed that, the respondent organisations has board level audit committee that acts as a link between board of directors, management, statutory and internal auditors that administers financial reporting process. Moreover, 70% out of total number of respondents has committee presently comprises of number of maximum non-executive directors than executive directors. 25% of respondents revealed that, their audit committee encompasses only of non-executive directors. According to the 72% respondents, internal auditors and statutory audit partner such as, M/s. Deloitte Haskins and Sells, S.R. Batliboi and Co., Ernst and Young Private Limited etc. oversees internal audit activities in-line with international practice. Moreover, 54% respondents quoted that, the outsourcing of internal audit function produced better results and added more value towards current process.

Interestingly, respondent organisations has implemented usage of ERP system to record data for accounting, consolidation and management information purpose that connects with different locations for efficient exchange of information. It was found that 62% of SMEs responded were in favour of professional auditors such as chartered and cost accounting firms, independent external auditors (40% of total sample enterprises); another substantial number of the respondents said that, the internal employees perform audit function (40% of total sample enterprise) and about 4% through finance and account advisors. Most of the organisations believed statutory auditors should be independent from any influence. Interestingly, professional and industrial associations (Other) appoints auditors each year based on rotational policy for an audit function. According to the respondents some of the recent statutory auditors comprises of M/s. Thakur Vaidyanath Aiyar & Co, M/s. G C Sharda & Co.

5.2.11 Risk Management and Internal Control

According to the respondents, organisations had undergone enduring process of risk evaluation and management. The 95% of respondents has a comprehensive risk management policy and board of directors periodically reviews this process. Moreover, during the period under review, presentations are arranged on critical risk aspects and respective units formulate mitigation plans towards board members. The 75% of respondents has revealed that, the live demonstration of an online Risk Management Tool is also used for more clarity in this process. Interestingly, 100% of MNCs, professional and industrial associations (Other) and 25 % of SMEs has framed an Enterprise-wide Risk Management (ERM) programme based on (COSO) the Committee of Sponsoring Organisations of Treadway Commission framework.

25% of the SMEs entrepreneurs said that, they found ERM programmes expensive and complex for their organisations. Interestingly, one of the respondents quoted that, they rely only on experience of top management. One of the respondents has quoted that, Risk Management Group (RMG) and Finance Group performs under the supervision of risk management committee and Board. The risk management framework ensures that various risks are understood, measured and alleviated. Moreover, established procedures and policies that addresses these risks are strictly adhered too. The analysis has revealed that, risk management and internal control has direct relationship with the overall functioning and growth of an organisation. Moreover, ERM programmes benefits identification of risk across various levels of the organisation such as strategic, operational, financial and compliance-related risks. This also includes risk assessment and mitigation at distinctive levels within an organisation such as organisational, functional division level, project and relationship level. Thus, risk management framework facilitated sample corporations in positioning down procedures to notify directors about the risk assessment and minimisation procedures. Moreover, periodic reviews of these procedures benefited executives to control risk through properly defined framework.

5.2.12 Compliance with Clause 49 and Disclosure Norms

According to the respondents**, in order to protect investors'** interest and organisational behaviour corporations require constant and effective regulator surveillance. The systematic adjustments of capital markets in domestic and international financial flows require constructive supervision on corporate governance. Moreover, good corporate standards calls for professional vigilance. The clause 49 has been overarching legal provisions in-accordance with corporate governance framework. Corporate governance adjustments has provided framework with respect to rules, board and committee composition, discloser **norms such as directors' activism,** regulations of auditors, risk management and internal control for the organisations.

The analysis has also revealed that, the respondents has been benefited from Clause 49 of the Listing Agreement. Thus, regulatory shift in policy making with global reforms has ensured organisational liquidity and improved investor**s'** confidence towards established practices. 69% of respondents has revealed that, Clause 49 facilitated in creating awareness about directors roles and responsibilities. Thus, compliance with current corporate governance standards seems to be increasing. The respondents has also quoted that, the nature and qualification of benefits flowing from robust corporate governance mechanism is an influencing factor from the investors**'** perspective. 72% respondents posited that, their organisations comply with some non-mandatory guidelines of Clause 49. Moreover, 36% out of total number of respondents has adopted non-mandatory suggestions on independent directors and whistle-blower policy for the improved corporate governance performance within an organisation.

According to the analysis, independence of board members and various committees has facilitated unbiased and insightful leadership. Therefore, organisations should not only attempt to meet recommendation of Clause 49 but also implement measures to mitigate risk that impacts shareholders value. Some of the respondents quoted that, in case of non-independent chairman 50% independent executives on board is a stringent

requirement because of the critical functioning of executive directors that can increase board size. However, some responded that, the independent review system is crucial for smooth functioning of any organisation. The segregation of chairman and CEO benefits organisational transparency, professionalism and accountability. However, 10% of SMEs respondents quoted that, the segregation of chairman and CEO is insufficient in the inherent family cultured organisation than professional set-ups. 78% of respondents quoted that, there are inadequate procedures for the adjustments of new directors within specific organisational environment regardless of their knowledge and experience in relevant industry. Interestingly, only 63% of respondents believed that, independent directors should communicate and express opinions with full independence; whereas, 15% did not commented much about independent directors. Moreover, 36% of respondents quoted that, distinctive business environments demand distinct approaches; therefore, tenure of independent directors should not be defined.

According to the responses received, provisions of audit committee provides framework for assessing internal control. However, weak vigilance on external audit firms may encourage fraudulent representation of financial information. The number of respondents has quoted that, joint auditors increase operational cost rather than necessary audit quality. The most of the respondent organisations follow standard practice of quarterly board meetings. However, Clause 49 dose not set the upper cap on the number of board meetings. The respondents has appreciated new provisions within Companies Bill (2012) towards the usage of electronic means for board meetings than physical conduct of meetings. It has enhanced seamless connectivity amongst members. The analysis has revealed that, most of the respondents comply with the disclosure norms as per SEBI. Surprisingly, some of the respondents were hesitant to comment about the compliance with disclosure norms of Clause 49.

5.2.13 Adoption of IFRS

The analysis has revealed that, the globalisation of Indian economy has created need for adoption of (IFRS) International Financial Reporting Standard to bring more uniform and transparent practices for satisfying needs of wide users of financial information. MNCs Respondents quoted that, the adoption of IFRS may benefit in raising overseas capital due to better quality and comparability within financial statements and information. The organisations will benefit in preparation of consolidated statements that can result in reduced time and cost in the preparation of financial statements in different territories. However, lack of training programmes, impact on tax system, reduced competition, poor communication between groups, limited knowledge transfer, failure of effective communication between shareholders, board members, audit committees and investors has restricted implementation of IFRS in India.

Interestingly, SMEs respondents were positive about IFRS but appealed to be hesitant in adoption and implementation of IFRS in business environment. 25% of SMEs respondents highlighted key issues in implementation of IFRS such as extensive financial cost, lack of trained professionals, time and cost involved in maintaining accounts, major domestic investments, legal and regulatory framework. However, respondents also quoted that, adoption of IFRS may raise global capital at low cost, increase investors' satisfaction, benefit in expansion and growth of corporations. The analysis has revealed that, the issues and manipulative disclosure practices in accounting system in India has put forward need for convergence but significantly adoption of IFRS.

5.2.14 Benefits and Necessity of Corporate Governance

According to the responses received, corporate governance contributes towards organisational efficiency and country's economic development. The good corporate governance practices has facilitated most of the respondent organisations towards decision making freedom of board members on progress and innovation within an established framework. The

ethical norms of corporate governance has benefited most of the respondents in attracting investors and human capital domestically as well as internationally. The corporate governance has also benefited establishment of relationships between shareholders and credibility to retain capital for long-term. The analysis has revealed that, the good corporate governance practices have added considerable value towards operational performance of the respondent organisations. Moreover, adoption of corporate governance norms has built confidence in shareholders and stakeholders. Some respondents has quoted that, corporate governance practices has reduced perceived risk and capital cost.

The respondents has expressed a need of good corporate governance practices within Indian organisations. Since, corporate governance system deals with directing and controlling organisational activities, stimulating corporate accountability and transparency. In India, the good corporate governance practices can benefit all forms of organisations in attaining corporate objectives and ensuring adequate disclosures, effective decision making, organisational transparency and statutory compliance, protection of **shareholders' interests** and ethical behaviour of corporates. The respondents has quoted that, the implementation and adoption of good corporate governance within Indian organisations can prevent fraudulent behaviours and corporate risk that has startled global investors. Moreover, constant effort towards improvement of operational performance with directed firm-specific values forms the base for good corporate governance. Furthermore, corporate governance establishes strong value impelled facet such as learning, trust, commitment, integrity, teamwork, quality, discipline, respect, transparency and customer orientation. The analysis has also revealed that, corporate governance directs conduct of organisational undertakings with a fair-view for shareholders benefits and rights. This framework provides a tool for control and prevent interest conflicts within involved parties. Moreover, corporate governance integrates economic and more importantly social involvement of corporates.

Interestingly, most of the respondents has quoted that, an attempt of Indian organisations is not only towards organisational growth and long-term enhancement of shareholders value and wealth, but also towards socio-economic development that seems to be principle during current movement of legislative reforms in India. Remarkably, number of respondent corporates generate domestic and worldwide employment opportunities. Moreover, most of the corporates have facilitated development programmes for economically backward groups' namely educational scholarships, health and environment programmes for better living of the community.

5.2.15 Corporate Governance in India- Practices, Problems and Solutions

According to the responses received, India's corporate governance reforms has stimulated capital flows and attracted financial suppliers within MNCs at large and comparatively low in SMEs. The basic phenomenon of corporate governance has provided stringent controlling and directing mechanism for Indian corporates. Moreover, after the Satyam scandal Indian regulators had pronouncedly stringent corporate governance norms for all organisations. The new Companies Bill (2012) and Clause 49 of listing agreement are stringent; thus, may encourage ethical behaviour and prevent corporate frauds. Furthermore, adoption of voluntary guidelines can benefit Indian corporates. One of the respondents has quoted that, regardless of corporate governance reforms it is the duty of executives and organisational participants to accept and adopt these changes for betterment of corporations as well as shareholders and ultimately of a country. However, direct-indirect interference of political institutions has been a major troublesome in recent period. Some respondents believed that, separation of SEBI as a watchdog may cultivate good corporate governance practice in India.

According to the respondents, private companies and particularly SMEs should exercise separation of chairmen and CEO as guided in Companies Bill for better organisational performance and growth. SMEs and family-owned businesses can build confidence in shareholders, attract investors and set

pitch for internationalisation of their business activities. However, lack of incentives and training towards management has been deforesting corporate governance mechanism in SMEs. Thus, debt restructuring mechanism may manipulate concentrated ownership structures in Indian organisations.

The analysis has revealed that, institutional investors and government policies are changing in favour of SMEs to increase shareholders credibility and instigate overall organisational development. Some of the respondents has appreciated publications of SEBI on corporate governance guidelines especially for SMEs. Interestingly, most of the respondent organisations have registered their interest for adoption of IFRS due to incompetence of Indian accounting standards in current globalised business world. Moreover, the relationships with accounting firms and external auditors plays manipulative role in the disclosure of financial information. The dominance of majority shareholder and minority shareholders has been a primary agency problem in India. However, strict disciplining of shareholders can be the key solution of a problem.

One of the respondents has quoted that, instead of waiting for laws to change adoption and implementation of ethical and good corporate governance is better for overall organisational development. Moreover, corporate governance in India can be strengthen through an ethical behaviour of the society on whole. The enforcement of compulsory adoption of clause 49 guidelines and IFRS can inject drastic progression within Indian corporate sector. Some of the respondents were concerned with active participation of SEBI in this process. According to the respondents, SEBI can conduct corporate governance audits and periodic reviews to understand difficulties in implementation and adoption of corporate governance norms based on distinctive business forms. Furthermore, these practices may ensure implementation of good corporate governance mechanism in the country.

5.3 Findings

Indian business sector is the composition of diverse business forms; however, private sector especially family-owned businesses dominate Indian corporate sector. Most of the respondent organisations comply with SEBI's norms in-regards with the composition of board in case of executive or non-executive chairman and number of independent executives; as independent executives facilitates sources of investments, ideas, experience, knowledge and expertise. Interestingly, OECD's perspective on introduction of women members on board has improved diversification of board within MNCs, Professional and Industrial association (Other) than in SMEs.

The directors on board of MNCs, professional and industrial association performs advisory role; whereas 75% board members of SMEs respondent are involved in daily organisational activities. This type of involvement of board members can excel and deteriorate SMEs in long run. Interestingly, high number of directors also serve on distinct organisational boards. The executives on board are well-qualified and also possess professional qualifications in their areas of service. The board members in MNCs, Professional and Industrial association has extensive experience; whereas, SMEs has combination young experts and experienced members on board. The directors' of MNCs, professional and industrial association are highly paid as compared with SMEs that may set parameters for their performance on board and ultimately of organisation on whole.

The remuneration policy substantially influences board members performance. The executives and non-executives of MNCs and professional associations' respondents strongly believes that, organisational performance has links with executives' remuneration packages. Surprisingly, 65% of SMEs do not entertain any relationship with non-executive directors that may restrict organisational and ultimately shareholders growth. Indian organisations are seems to be complying with legislative norms and moving towards excellence of their executives for extensive organisational results. The 69% of enterprises provide training programmes for directors and employees. All the directors of MNCs, professional and industrial association

has undergone corporate governance programmes such Leadership Development Programme (LDP) and Executive Development Programme (EPD) whereas; comparatively low number of SMEs respondents has recently undergone such development programmes.

The audit committee of the organisations has provided reassurance towards the board to maintain effective internal controlling environment. Moreover, audit committee is accredited to review any organisational activity. The audit committee serves as a linkage between directors, management and internal and statutory auditors as well as administers the process of financial reporting. 70% of organisation has executives and non-executives on audit committee whereas 25% of organisations comprises only of non-executives on audit committee. Interestingly, high number of organisations has implemented ERP; whereas, SMEs depends on professional accounting firms, employees and independent external auditors. Interestingly, professional and industrial associations (Other) exercise rotational audit policy for the prevention of frauds. The high substantial number of organisations has risk management and internal control policies in place such as ERM due to direct relationship of these functions with organisations operations and growth. Interestingly, some of the SMEs rely on experience of top management whereas, financial enterprises has formed risk management groups under the supervision of board members. The organisations strongly believes that, risk management function analyses and mitigate risk involved at the different levels of organisational activities.

The clause 49 has been overarching legal provisions in-accordance with corporate governance mechanism. These Corporate governance adjustments has provided an effective framework with respect to guidelines for board composition, for discloser norms on directors' activism and regulations for auditors, risk management and internal control for the organisations. The organisations has benefited from Clause 49 of Listing Agreement. The regulatory shift with global changes in policy making has ensured organisational liquidity and improved investors' confidence towards

established practices. Interestingly, 36% of respondents has adopted non mandatory suggestions on whistle-blower policy and independent directors.

The provision in Clause 49 on independent directors and separation of ownership has provided organisations with unbiased leadership whereas, some respondent found these requirements more stringent. It has been found that, there are inadequate procedures for the adjustment of new directors within specific organisational environment; moreover, limited tenure of directors seems to be less appreciated. The weak vigilance on external audit firms may encourage fraudulent representation of financial information. Moreover, joint auditors do increase cost rather than necessary audit quality. Clause 49 dose not set an upper cap on the number of board meetings. The new Companies Bill provides electronic means of board meetings than physical meetings that has enhanced seamless connectivity amongst members. The most of the respondents comply with the disclosure norms of SEBI. The Indian organisations has appreciated move towards convergence with IFRS. MNCs can benefit adoption of IFRS in the process of internationalisation; however, SMEs are hesitant towards adoption of IFRS instead of problems in current Indian accounting standards. There are issues related with the IFRS in regards with cost, trainings, investments and **country's legal a framework.**

The corporate governance framework has benefited enterprises in aspects of decision making, ethical behaviour, operational risk, increased foreign and domestic investments, strong shareholders relationships, fraud preventions and ultimately added towards organisational value. The Indian organisations quoted the need of good corporate governance practices due to convergence with global economy. The Indian corporates seems to be involved with social development programmes. Moreover, the corporate governance mechanism has been widely practiced phenomenon in India irrespective of issues within practices. Interestingly, enormous number of SMEs are turning towards corporate governance as socio-economic successive tool rather than only stringent mechanism. Thus, corporate governance reforms are major capital stimulating factor for organisation in

India. The corporate governance has facilitated stringent directing and controlling mechanism to prevent corporate frauds. However, the source of **corporate fraud can't be defined and controlled unless** organisations adopt and implement strict ethical norms at organisational as well as personal level. The major reforms in Companies Bill and Clause 49 of listing agreement provides and encourages means of ethical practices within Indian corporate sector.

The political system in India play manipulative role towards some organisations. Furthermore, division of SEBI and other regulating bodies as a watchdog on corporate activities may inject operational benefits at large. The separate ownership norms has not been increasingly adopted in SMEs; whereas, MNCs seems to be positive about these structural reforms. Thus, this may continue manipulative activities of directors and chairmen in SMEs and restrict means of global organisational expansion. However, adoption and implementation of good corporate governance mechanism can develop organisational health for long term. The problems of dominance and conflicts of majority-minority shareholders became devastating fact for Indian organisations. Thus, implementation of debt restructuring mechanism can prevent such problems. The personal relationships with the external audit firms plays questionable role that disturbs shareholders confidence. Therefore, organisations has registered their interest for the adoption of IFRS. Moreover, corporate governance audits and periodic reviews of SEBI at both implementation and adoption level can procure key changes in the Indian corporate governance practices.

Chapter 6

Conclusion and Recommendations

6. Conclusion and Recommendations

6.1 Conclusion

The corporate governance is a sole mechanism that facilitates reform agenda comprising improved supervision, capital market and financial institutional regulations, adaptive microeconomic and exchange rate policies for new open financial environment and better competitive policies (Ananchotikul and Eichengreen, 2009). The incompetent corporate ownership structures, failures of board, distressed shareholders activism, non-transparent accounting practices and disclosures, frauds and malpractices of corporates are the causes of corporate governance predicament in India (Som, 2006). Moreover, corporate governance structures in India are evident to be incompetent, and unsuccessful due to high competition and economic deregulation (Dahiya and Gupta, 2001; Khanna and Palepu, 2000). However, improved corporate governance can contribute towards an establishment of international financial markets and facilitate productivity growth. Thus, problems of corporate governance abuses can be dissolved through regulatory market forces and capitalised market (Kaushik *et al.*, 2012, Varma, 1997).

The agency problem arises in low investment protected countries; thus establishment of good corporate governance mechanism is significant in these countries (Francis *et al.*, 2013). The paradigm shift of corporate governance exposed top level management towards new set of challenges in India (Sharma and Gupta, 2012). Moreover, corporate governance norms for separation of ownership has not been increasingly adopted within Indian corporations yet; though, this type of corporate behaviour can manipulate activities of directors, chairman and may restrict organisational growth (Luo, 2013; Dutta, 2006). Thus, separation of CEO and chairman is insufficient in inherent family cultured organisation than in any professional set-ups. As a result, positive relationships between organisational value and managerial holding beyond certain threshold is constant with the fact that many Indian corporates are typically family-dominated (Sarkar and Sarkar, 2000). The **shareholders' dominance and conflicts has been a central issue** for Indian

corporate sector (Varma, 1997). Therefore, debt mechanism can be implemented as disciplining mechanism to comprehend agency problems between management and outside stakeholders (Dwivedi and Jain, 2005; Sarkar, and Sarkar, 2005). However, debt mechanism can impose positive or negative effects on organisational value, growth and performance. Thus, any single corporate governance model cannot be pertinent (Shleifer and Vishny, 1997).

The findings suggests that, Indian business sector is a composition of distinct types of business forms; however, private sector especially family-owned businesses dominate Indian corporate sector (Kumar and Singh, 2013; Fan and Wong, 2005). The board of directors are primary internal controlling mechanism; moreover, directors act as shareholder representatives and perform monitoring and strategic functions within an organisation (Singla *et al.*, 2013). Thus, appointment of professionally trained-qualified executives and non-executives is significant due to the benefits attached with them such as source of investments, ideas, experience, knowledge and expertise (Aggarwal and Kaur, 2012). However, corporate governance must not be consigned exclusively on independent **directors'** regardless of **directorates' type** (Pergola and Joseph, 2009). The remuneration policy significantly influences board members performance (Kakabadse *et al.*, 2001). However, SMEs may not retain any relationship with non-executive directors that may restrict organisational and shareholders growth. Moreover**, lack of incentives and qualified directors, shareholders'** dominance and weak monitoring structure can hamper corporate governance mechanism within an organisation (Rajagopalan and Zhang, 2008).

The major reforms in Companies Bill (2012) and Clause 49 of listing agreement (2004) may provide and encourage means of ethical practices for Indian corporates. Despite of stringent guidelines within Clause 49 on independent directors and separation of ownership provides an unbiased leadership (SEBI, 2013; Broni and Velentzas, 2012). The new Companies Bill (2012) provides distinct benefits towards organisational conduct. Thus, Indian legal structure provides adequate corporate governance mechanism

and powers towards board of directors for transparent functioning of an organisation (Chakrabarti *et al.*, 2007). However, variations in legal system and organisation-specific governance standards, relationship amongst organisation-specific governance mechanism and monitoring on investors' protection laws formulate further research (Aggarwal and Kaur, 2012). Thus, differences in firm-level corporate governance mechanism prompts for performance based, market valuation and external financial accessibility problems in the country (Klapper and Love, 2004).

The audit committee has been empowered to review any undertaking within an organisation (Raju *et al.*, 2012). Moreover, board level audit committee establishes connection amongst management, internal and statutory auditors and directors as well as governs financial reporting process (Fan and Wong, 2005). The Indian organisations heavily depends on professional accounting firms, employees and independent external auditors for an audit function. Since, audit committee ensures consummate financial functioning as an important concern of corporate governance mechanism to safeguard shareholders' wealth (Aggarwal and Kaur, 2012). However, complete alliance of board of directors or non-executive directors is an ineffective step that may lead towards corporate governance failure (Khanna and Palepu, 2004). The weak vigilance on external audit firms may encourage fraudulent representation of financial information (Khanna and Palepu, 2000). Moreover, joint auditors does increase cost rather than necessary audit quality (Fan and Wong, 2005). Therefore, adoption of IFRS can benefit Indian organisations; however, issues of cost, trainings, investments and country's legal a framework can decelerate process of adoption (ICAI, 2010).

This study point towards that, the corporate governance framework can benefit organisations in various aspects of decision making, ethical behaviour, operational risk, international and domestic investments, strong shareholders relationships, fraud preventions and ultimately development of organisational value (Roy, 2012; McGee and Bose, 2009; Sarkar and Sarkar, 2000). The risk management function analyses and mitigates risk involved at

different levels of organisational activities. However, SMEs rely only on experience of top management; whereas, financial enterprises formed risk management groups under the supervision of board members. Even though, **Indian regulatory framework provides one of the highest level of investors'** protection theoretically and substantial corruption can deteriorate corporate governance structure in the country (Chakrabarti *et al.*, 2007). Moreover, sources of corporate fraud cannot be defined and controlled unless corporates adopt and implement ethical norms rigorously at organisational as well as personal level. Therefore, existence of good corporate governance **for today's complex and dynamic business environ**ment for sustainable reforms is essential to prevent corporate scandals, frauds, civil and criminal liabilities within an organisation (Roy, 2012). Moreover, firm-specific corporate governance is more feasible within organisations in India (Klapper and Love, 2004).

The corporate social responsibility is recommended in-context with international development and poverty mitigation aspects due to the benefits of contribution towards equity, economic growth and human rights (Blowfield and Frynas, 2005). Interestingly, Indian corporations are turning towards corporate governance as corporate and socio-economic successive tool rather than only stringent mechanism. The interference of domestic political institutions may hinder organisational performance Ananchotikul and Eichengreen, 2009; Kakabadse *et al.*, 2001; Varma, 1997). However, good political governance can overcome country-wise development and regulatory obstacles and reinforce good corporate governance (Oman, 2001). Moreover, political and microeconomic stability are essential factors for good corporate governance that facilitates freedom of voice for investors and investment incentives towards government (Ananchotikul and Eichengreen, 2009).

The separation of SEBI and other regulating bodies as a watchdog can improve corporate activities within the country (Companies Bill, 2012). The periodic reviews and corporate governance audits of SEBI at different levels of implementation and adoption can procure key changes in Indian corporate

governance practices. Moreover, good corporate governance can incorporate transparency principles, independence of boards, accountability and fairness, social-environmental concern of stakeholders, unbiased directorate selection procedures for formulation and implementation of organisational policies and controlling operational strategies (Hothi *et al.*, 2011). Furthermore, corporate governance will facilitate lucrative framework towards organisations, its participants and ultimately towards country-wise economy (Gourevitch and Shinn, 2005; Letza *et al.*, 2004). The good corporate governance practice can benefit **India's** dominance within global economy. Therefore, implementation and development of good corporate governance norms is an effective step (Chakrabarti, 2005).

6.2 Recommendations

The new structural reforms of corporate governance in India can promulgate adoption and implementation of good practices within Indian corporates. Moreover, following recommendations can be seen as model of good corporate governance for Indian Organisations.

The appointment of board members should be based on following aspects to ensure transparency and sense of responsibility:

- Qualification
- Experience
- Integrity
- Skills
- Interest

The board of directors should maintain balance between number of executive and non-executive members. Moreover, number of non-executive directors should be sufficient enough as per the **SEBI's** guidelines in Clause 49 to provide independent judgements on organisational strategies, decision making, key appointments, conflict resolution, attracting investment and for better organisational performance. The organisations must improve diversification within composition of board members. The board members

should conduct regular meetings and monitor organisational activities closely. Moreover, directors must perform advisory role rather than interfering in day to day organisational activities. The board members should undergo regular training programmes on corporate governance. The all types of business forms should form diverse committees for better monitoring and controlling activities. The organisations can form committees such as:

- Finance Committee
- Executive Committee
- Audit Committee
- Remuneration Committee

The composition of audit committee should integrate independent non-executive directors. This committee must reassurance organisational board on corporality of the efficient internal controlling environment. The internal audit committee must report and have access towards CEO and board members of an organisation. The organisations should publish and enforce ethical code of conduct to maintain high standards of ethical behaviour at all levels of organisation. The organisations can conduct ethical training programmes for management as well as employees. The organisations must implement risk management and internal control policies such as ERM due to its direct relationship with the operations and growth of an organisation. Moreover, this function may facilitate investigation and mitigation of risk involved at the different levels of an organisation. Moreover, companies must adopt Whistle Blower policy as per the norms of SEBI.

The adoption and implementation of clause 49, Companies Bill and SEBI's norms can provide stringent framework with-respect to procedures, board composition, discloser norms such as directors' activism and regulations of auditors, risk management and internal control for organisations. However, these norms must ensure unbiased leadership, organisational liquidity and improve confidence within investors toward established practices. The organisations must comply with the disclosure

norms as per SEBI. The organisations must include section of Management Discussion and Analysis (MD&A) in yearly report for more transparent disclosure of information for shareholders (SEBI, 2004). Moreover, convergence with IFRS can benefit SMEs in the process of internationalisation. However, issues of cost, trainings, investments and country's legal framework may restrict implementation of IFRS. The organisations must avoid interference of domestic political institutions.

The adoption and implementation of good corporate governance mechanism can develop organisational health in long run. Thus, good governing organisation can rely less on legal systems of the country to dissolve corporate governance conflicts that may result in improved investors' protection and minority shareholder rights independently. The good corporate governance practices can develop organisational performance, capital growth, sustainable productivity, intact shareholders' interest, enhancement of organisational value and shareholders' trust (Roy, 2012). Therefore, Indian organisations must adopt necessary guidelines as published by SEBI for the better corporate governance mechanism within organisation. Moreover, adoption and implementation of corporate governance practices can result in high profits, market value and sales growth, lower capital cost that facilitates greater access towards external finances (Sur and Chakraborty, 2006).

6.3 Limitations of Study

The scope of study was inadequate to selected sample organisations; though signified diverse business forms within the economy. As a result, samples were representative of organisations within India. These organisations were expected to have high motivation and resources to secure opportunities for adoption and implementation of good corporate governance practices preceding to their adoption being compulsorily initiated through national regulators. Moreover, study could not engage the additional statistical analysis of regression. Furthermore, the findings may have been dissimilar if the large size of samples were comprised and period

of study was prolonged. This research may not have considered other factors that can effectively be tracked in future research.

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8. Appendices

8.1 Appendix 1

8.1.1 RBI's Recommendations for Corporate Governance in India

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
BOARD ISSUES	
Responsibility of the Board	**CODES AND PRINCIPLES** ***OECD Principles*** The board should fulfil certain key functions, such as (i) reviewing and guiding corporate strategy, risk policy, annual budget and business plans, setting performance objectives, monitoring corporate performance and overseeing major capital expenditures and acquisitions; (ii) selecting, compensating and monitoring key executives; (iii) reviewing key executive and board remuneration; (iv) monitoring and managing potential conflicts of interest of management, board members and shareholders; (v) ensuring the integrity of corporation's accounting and financial reporting systems; (vi) monitoring the effectiveness of the governance practices; and (vii) overseeing the process of disclosure and communications. **BIS** Bank boards should establish strategic objectives and set corporate values that will direct the ongoing activities of the bank. The board should ensure that senior management implements policies that prohibit activities and relationships that diminish the quality of corporate governance, such as conflicts of interest, self-dealing and preferential dealings with related parties. Board should set and enforce clear lines of responsibility and accountability throughout the organisation. Keeping in view their oversight role board of directors should feel empowered to recommend sound practices, provide dispassionate advice, and avoid conflict of interests. ***LSE Combined Code*** Every listed company should be headed by an effective board which should lead and control the company. ***SEBI*** The board of directors of a company directs and controls the management of a company. The day-to-day management of the company is the responsibility of the management. **CURRENT PROVISIONS** ***Companies*** The board of directors is the ultimate governing body of a company. It enjoys extensive powers as provided under the Companies Act and the company's Articles. Some of these powers are exercisable at board meetings while others require the consent of the shareholders. Directors, who are appointed as fiduciaries of the company, are "expected to display the utmost good faith towards the company

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	whether their dealings are with the company or on behalf of the company". (S.291) The board may, through a resolution, delegate its powers to the managers. However, it remains the duty of the board to set out limits to the powers delegated to management. The board should not act negligently in the management of the company's affairs. The board of directors must disclose their interest in any transactions of the company. Board's sanction is required for certain contracts in which particular directors are interested. They must avoid conflicts of interests in their duties and obligations to the company. The board is responsible for signing of the company's balance sheet and profit and loss statement and for ensuring that these documents are filed with the Registrar and sent to shareholders. The board must provide the directors' report attached to the annual report to the shareholders and ensure the accuracy of statements made therein. The directors are liable for their statements made in the directors' report. ***Banks*** Some banks articulate corporate values, codes of conduct and standards of appropriate behaviour, etc. Some of them have also well-articulated corporate strategy decided by the board of directors. In pursuance thereof, performance budgeting system is followed, which measures, monitors and evaluates corporate success and the contribution of business units. The mechanism for interaction and co-operation among the board of directors, senior management and the auditors of the bank is fairly well established. Section 20 of BR Act, 1949 prohibits loans and advances to directors or to any firm or company in which directors are interested or loans to individuals in respect of whom any of its directors is a partner or guarantor. Disclosure of interest by directors is mandatory and in case there is any likelihood of conflict of interest arising, the concerned director is required to abstain from participating in the decision-making process relating to that case. The boards generally perform the function of providing "check and balance" to the management. However, all members of the boards individually may not be said to be conducting themselves as ideally as envisaged. RBI has issued a circular regarding Do's and Don'ts for the directors of banks on March 9, 1992. ***Public Sector Companies*** Most of the provisions in the Companies Act regarding role/responsibility of the Board also apply to the Government companies. The only exception being Section 297, which states that the 'Board's sanction is required for certain contracts in which particular directors are interested'. In addition, the Department of Public Enterprises (DPE) has specified the following:

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	1. Board of Directors of all non-financial PSUs should ensure that decisions regarding investment of funds are transparent and taken only by the delegated authority, and that the proper exercise of such authority is monitored by the Board. Boards of all PSUs are directed to lay down clear policies on investment of surplus funds, establish transparent procedures, review delegation of authority and prescribe regular reporting of investments to the Board. The Administrative Ministry gives guidance to the Board in laying down policies and procedures. The Administrative Ministry in turn is guided by the DPE and the Ministry of Finance. The latter closely follow up the implementation of the policies on investment laid down by these Ministries. 2. Wherever the company is headed by a part time chairman the part-time Chairman should guide the board of directors in the discharge of the role entrusted to them in respect of formulating corporate policy and the corporate plan, their implementation and evaluation with a view to improving the enterprise's performance. The part-time Chairman, however, cannot issue directives as the management of public enterprises is vested under the Companies Act with its Board of Directors. 3. As Chairman of the Board of Directors, the part-time Chairman will also evaluate the work of the Chief Executive in implementing the policies laid down by the Board for improving the enterprise's performance. **ISSUES / RECOMMENDATIONS** ***Companies*** As in OECD Principles, the responsibility of the board should be clearly defined to include following key functions: (i) reviewing and guiding corporate strategy, risk policy, annual budget and business plans, setting performance objectives, monitoring corporate performance and overseeing major capital expenditures and acquisitions; (ii) selecting, compensating and monitoring key executives; (iii) reviewing key executive and board remuneration; (iv) monitoring and managing potential conflicts of interest of management, board members and shareholders; (v) ensuring the integrity of corporation's accounting and financial reporting systems; (vi) monitoring the effectiveness of the governance practices; and (vii) overseeing the process of disclosure and communications. Though law provides safeguards to shareholders, it is well known that directors' duties are often followed in letter but not in spirit. The board of directors needs to look into improving the quality of information, which they provide to shareholders. The balance sheet is prepared to meet only statutory requirements. It is not much helpful from average shareholders' point of view. About 6-8 pages should be added to enlighten the shareholder about the performance of the company in relation to last couple of years, with reference to other companies in the same/similar industry as also with reference to the industry as a whole. Consolidated accounts incorporating performance of subsidiaries and performance of various divisions of the company should be presented.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	Banks Even in respect of banks, the responsibility of the board should be clearly defined as in the case of other companies. There is an urgent need to follow the best practices in the banks in respect of constitution and functioning of the boards. Banks need to develop mechanisms to ensure percolation of corporate strategic objectives and sound values throughout the organisation. The board should ensure that senior management implements policies that prohibit (or strictly limit) activities and relationships that diminish the quality of corporate governance, such as, conflicts of interest, self-dealing and preferential treatment to related parties. Bank boards should play an active role in providing oversight of the way in which senior management approaches different kinds of risks which banks face, such as, credit, market, liquidity and operational. Currently several bank boards, particularly those of the PSBs are relatively weaker and less motivated to pursue policies, which are in the best interests of the banks themselves. Corrective steps should be taken through appropriate restructuring the boards. A number of corporate control mechanisms do not work freely in banks as banks operate under substantially different legal and regulatory environments than non-financial companies. The absence of a credible take-over threat among banks has a marked influence on the effectiveness of the corporate control mechanisms operating in banks. There may be benefits in reducing rigour of some of the regulatory impediments that mergers of banks face. The regulations regarding limits on individual shareholdings and voting rights differ as between PSBs and private sector banks. For example, while limits on individual voting rights are 1% in PSBs they are 10% for private sector banks. All such regulations should be made uniform irrespective of whether the banks are in the private or public sector. There are many restrictions, which influence the ownership structure of banks. To the extent that these restrictions reduce the likelihood of banks having equity holders with large stakes, it may reduce the effectiveness of the mechanism of monitoring and oversight performed by the shareholders with large stakes. Since the restrictions on market for corporate control for banks in India is not being made up for by greater direct shareholder monitoring, the current restrictions on potential owners of banks do have costs. *Public Sector Companies* The quality of information provided to the shareholders should be improved substantially. In particular, the balance sheet, besides meeting statutory requirements, should also devote about 6-8 pages to enlighten the shareholders about the performance of the company during the current year vis-a-vis that during the last 4-5 years. It should give a comparative picture with reference to other companies in the same/similar industry as also with reference to the industry as a whole. Consolidated accounts incorporating performance of subsidiaries and performance of various divisions of the company should be presented.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	The fact that directors' duties are often followed in letter but not in spirit is all the more true in the case of Government companies, which in many cases keep on faithfully following extant guidelines issued by different Ministries/ Departments. Broadly speaking, the role and responsibility of the Board should be laid down in very clear terms for all kinds of Government companies, just like all other companies. The recommendations made in this regard in the context of Indian companies should apply to the Government companies as well. In any case, the following recommendations should apply to all listed Government companies: 1. The information regarding controlling stake of major shareholders in various government companies should be publicly available. 2. The board of directors needs to look into improving the quality of information, which they provide to shareholders.
Accountability to Shareholders/ Stakeholders	**CODES AND PRINCIPLES** ***OECD Principles*** Not covered. ***LSE Combined Code*** Not covered. ***SEBI*** The board is accountable to the shareholders for creating, protecting and enhancing wealth and resources for the company, and reporting to them on the performance in a timely and transparent manner. **CURRENT PROVISIONS** ***Companies*** No specific provisions. ***Banks*** Boards of majority of the banks do not enforce clear lines of responsibility and accountability for themselves. ***Public Sector Companies*** The Companies Act (S.619) thus requires that annual report on the working and affairs of each govt. company be prepared and laid before both the Houses of Parliament along with the audit report and comments of the Comptroller and Auditor General of India (CAG) in case the Central Government is a member of the Government company. Where any State Government is also a member, the annual report has to be laid before both Houses of State Legislature as well. This applies to all companies which are referred to as "deemed Government companies", i.e. those companies in which at least 51% of the paid-up capital is held by the Central Government or State Government or any other company which is owned by them or is under their control.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	<u>ISSUES / RECOMMENDATIONS</u> ***Companies*** The board should be accountable to the owners of the company, but not necessarily to the stakeholders. The company should, however, respect its contractual obligations to the stakeholders, such as, employees, creditors, suppliers, customers, environmental impact of the operations of the company, etc. ***Banks*** The boards of banks do not seem to subject themselves to high measure of accountability or performance either set by themselves voluntarily or made applicable to them externally. Thus, this leaves them largely without any accountability either to the institution or to the supervisor. The stress on accountability largely ends up with efforts to fix accountability for loans/advances that go bad. The situation calls for suitable correction. The board should be accountable to the owners of the bank. The banks should also keep in view the interests of main stakeholders, such as, depositors, employees, creditors, customers, etc. ***Public Sector Companies*** The board should be accountable to the ultimate owners of the Government company, which is essentially public and conduct the affairs of the company in such way that the overall social and not sectional interests receive the highest priority. The company should remain viable and meet the objectives for which it has been set up. Similarly, the interests of the main stakeholders, such as, employees, creditors, suppliers, customers, environmental impact of the operations of the company, etc receive due attention.
Access to Information	<u>CODES AND PRINCIPLES</u> ***OECD Principles*** In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information. ***LSE Combined Code*** The board should be supplied in a timely manner with information in a form and of quality appropriate to enable it to discharge its duties. The board should be free to acquire independent professional advice at the expense of the company. ***SEBI*** Management should provide timely, accurate, substantive and material information, including financial matters and exceptions, to the board and board committees. <u>CURRENT PROVISIONS</u> ***Companies*** No specific provisions. ***Banks*** Internal information flow is reasonably well established in banks.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	Public Sector Companies Often all the required information is not given especially to the non-government directors. As per DPE guidelines, the part-time Chairman can call for information, but this should be appropriately done through the MD and not directly from the officers. The agenda papers for the Board meeting are provided to all the Directors. **ISSUES / RECOMMENDATIONS** ***Companies / Banks / Public Sector Companies*** In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information. Information currently volunteered by the management to the board members is often quite inadequate. This needs to be improved considerably. Whenever necessary the directors should be free to acquire, at the expense of the company, independent professional advice in regard to the matters of the company. The board meeting should be conducted properly with clearly laid down agenda for discussion, which should be circulated well in advance and supported by substantive information. The minutes of the board meeting should be circulated well in advance of the next board meeting. This should be a mandatory recommendation for all companies.
Election	**CODES AND PRINCIPLES** ***OECD Principles*** The board should ensure a formal and transparent board nomination process. ***LSE Combined Code*** Non-executive directors should be appointed for specific terms and reappointment should be automatic; all directors should be subject to shareholder election following their appointments and re-elections thereafter. Appointment to the board should follow formal and transparent procedures; the nomination committee should make recommendations on all new board appointments. Directors should submit themselves for re-election at regular intervals of no more than three years. ***SEBI*** Not covered. **CURRENT PROVISIONS** ***Companies*** The directors are elected by the shareholders in the general meeting. The listed companies are required to intimate stock exchanges of the appointment. (S.255) Each director is appointed or removed by ordinary resolution. At least 2/3rd of total directors should retire by rotation at AGM. Remaining 1/3rd may be appointed for a fixed duration in the general

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	meeting. At every AGM, 1/3rd of those liable to retire by rotation shall retire from office. A retiring director may be re-appointed at AGM. (S.255,256) The appointment of managing director or whole-time director or manager requires Central Government approval in certain cases. (S.269) No specific qualifications are expected of directors other than the usual requirements that they should not be insane, not declared insolvent or with a criminal record. (S.267) *Banks* In terms of the provisions of Section 9 of Banking Companies (Acquisition and Transfer of Undertakings) Act, the Government constitutes the boards of directors of nationalised banks. The boards comprise of two whole-time directors, a nominee each of Government of India and RBI, nominees of workmen and non-workmen unions, and a chartered accountant. Besides this, six non-official directors with specialised knowledge in agriculture and rural economy, banking, co-operation, economics, finance, law, SSI etc. are appointed. The directors on the boards of private sector banks are appointed in terms of Section 10A of B.R.Act, 1949 and Section 303 of the Companies Act. While appointing the directors, the area of interest is considered to be the most important criteria. On a case by case basis, RBI appoints a nominee director on the board. *Public Sector Companies* Section 255, 256, 257 and 269 of the Companies Act do not apply to a Government company in which entire paid-up share capital is held by Central/State Government or subsidiary of a Government company in which entire paid-up capital is held by that Government company. These Sections stipulate: At least 2/3rd of total directors should retire by rotation at AGM. Remaining 1/3rd may be appointed for life-term or for a fixed duration in the general meeting. At every AGM, 1/3rd of those liable to retire by rotation shall retire from office. A retiring director may be re-appointed at AGM. (S.255,256) The appointment of managing director or whole-time director or manager requires Central Government approval only in certain cases. (S.269) The DPE guidelines stipulate the following: All part-time non-official directors are appointed for a term of three years at a time with rotational retirement. The retiring directors are eligible for re-appointment. Rotational retirement is necessary to ensure a degree of continuity of the Board. For the purpose of rotational retirement the public enterprises fall in two categories, namely, (i) enterprises where the entire paid up share capital is held by the Government (including State Governments), and (ii) the entire paid up capital is not held by the Government. Ideally in both cases rotational retirement system should be adopted in both cases.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	Selection Process All proposals relating to creation/redesignation/upgradation of board level posts, including MD, Chairman, CMD, etc. in PSEs require the approval of the Financial Adviser and Minister-in-Charge of the Administrative Ministry. The proposals are then processed by the DPE in consultation with the Public enterprises Services Board (PESB) for approval of the Ministry of Heavy and Public Enterprises and the Ministry of Finance. **ISSUES / RECOMMENDATIONS** ***Companies*** Independent and executive directors should be appointed on the board based on the recommendations of a nomination committee comprising the independent directors of the board. The nomination committee should adopt clear and transparent criteria for selection of the independent board members. The criteria for choosing non-executive directors should be disclosed in the Annual Report. ***Banks*** Presently, the bank boards consist mainly of nominated members as against elected members. The board with nominated members cannot be regarded as being truly independent. It sometimes takes a number of years to reconstitute the boards of some public sector banks. The board should have continuity and directors should be appointed with different tenures. Presently, the directors representing the interests of workmen, employees, officers, depositors, farmers, workers, and artisans, and directors with special knowledge or practical experience in specified fields are appointed on the boards of nationalised banks for a period not exceeding 3 years, and they are eligible for reappointment until his/her successor has been appointed. It is essential to look into the composition of board of directors of nationalised banks and induct professionals. As in case of other companies, independent and executive directors should be appointed on the board based on the recommendations of a nomination committee of the board. The nomination committee should adopt clear and transparent criteria for selection of the independent board members. The criteria for choosing independent non-executive directors should be disclosed in the Annual Report. ***Public Sector Companies*** The concept of nomination committee of the Board does not exist in the Government companies at present. The selection for all Board-level posts in PSEs is done through a complicated process. The role of Public Enterprises Services Board (PESB) set up by the Board comes close to that of the nomination committee. It advises Government on the appointments to all top-level posts in PSEs. As the entire process is very complicated and involves different levels of recommendations, interviewing and final decision-making, there are considerable delays

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	in appointment to various top-level posts. An independent high powered Selection Board of eminent persons on the lines of the Union Public Service Commission to select full time directors for the PSUs should be set up. Its decisions should be final and not subject to approval of the concerned administrative ministry. The selection board should also prepare a panel of experts for nomination as independent or professional directors on the boards of PSUs. The induction of non-executive directors should be done by a nomination committee. The criteria for choosing independent non-executive directors should be disclosed in the Annual Report.
Size	**CODES AND PRINCIPLES** ***OECD Principles / LSE Combined Code / K M Birla Report*** Not covered. **CURRENT PROVISIONS** ***Companies*** The Companies Act stipulates every company to have minimum three directors. Only individuals can be directors. A company, in its general meeting, by ordinary resolution, can increase or decrease the number of its directors within the limits fixed by its Articles. Any increase in the number of directors beyond 12 requires Central Government approval. (S.252, 253, 258 and 259) ***Banks*** The size of boards of public sector banks is stipulated by their respective statues. ***Public Sector Companies*** Sections 252, 253, 258 of the Companies Act regarding size of the board apply to Government companies also. Section 259 of the Companies Act, which stipulates that any increase in the number of directors beyond 12 requires Central Government approval, does not apply to Government companies. **ISSUES / RECOMMENDATIONS** ***Companies*** All listed companies should have minimum of eight board members so as to have professionals/experts from different disciplines as required by the company's scale and range of operations. Companies with net-worth of Rs 15 crore or more should have at least 10 directors of which at least 5 should be independent directors. ***Banks*** All banks should have minimum of 10 board members. ***Public Sector Companies*** The Articles/Memorandum of Association of different PSEs specify the size of the board, which varies from company to company. Normally, the size of the Board ranges between 3 and 15. Some PSUs have even bigger boards.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	The recommendation that all listed companies should have minimum of 10 board members should apply to PSEs as well.
Composition	**CODES AND PRINCIPLES** ***OECD Principles*** Majority must be independent board members who can contribute sufficiently to the decision-making of the board. ***LSE Combined Code*** The board should include a balance of executive and non-executive directors (including independent non-executives) so that no individual or group of individuals can dominate the board's decision-making. ***SEBI*** The board of a company should have an optimum combination of executive and non-executive directors with not less than fifty per cent of the board comprising the non-executive directors. The number of independent directors would depend on the nature of the chairman of the board. In case of a non-executive chairman, at least one-third of board should comprise of independent directors and in case of an executive chairman, at least half of board should be independent. (Mandatory Recommendation) **CURRENT PROVISIONS** ***Banks*** Not less than one-half of the total number of directors of a bank shall consist of persons who have special knowledge or practical experience in one or more of the areas specified in Section 10 A (2) of the Banking Regulation Act 1949. ***Public Sector Companies*** The Members of the Board of PSEs generally consist of the following three categories: **Functional Directors**: These are full time operational Directors responsible for day to day functioning of the enterprise. The enterprises could have representation at Board level for disciplines, such as, finance, personnel, production, marketing, project, planning etc. The number of such should not exceed 50% of the actual strength of the board. **Government Directors**: They are appointed by the Administrative Ministries and are generally the officers dealing with the concerned enterprise. In most cases there are two such Directors on a Board; the Joint Secretary or Additional Secretary dealing with particular enterprise and the Financial Adviser of the Ministry. The number of government directors should not exceed one-sixth of the actual strength of the board with a limit of two. **Non-Official Directors**: The induction of non-official Directors on the Boards of PSEs is considered essential in order to make the Boards more professional. They are drawn from the public men, technocrats, management experts and consultants, and professional managers in industry and trade with a high degree of proven ability.

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	The number of Non-Official Part-time Directors on a Board should be at least one-third of its actual strength. **ISSUES / RECOMMENDATIONS** ***Companies*** While the boards of major private sector listed companies have large number of non-executive directors, most of the non-executive directors are not independent. Generally, non-executive directors are family members, recently retired CEOs or company managers, representatives from the firms offering legal and other advice to the company. The board should have core group of excellent, professionally qualified non-executive directors who understand their dual role: of appreciating the issues put forward by management, and of honestly discharging their fiduciary responsibilities towards the company's shareholders as well as creditors. The board should be suitably composed of non-executive and truly independent members, who should be professionally competent. It is important to have high proportion of non-executive independent directors. ***Banks*** In view of the on-going transformation from traditional banking to modern banking, it is essential to look into the composition of board of directors of banks and induct professionals from the respective fields to the boards. The bank boards should have a specified proportion as non-executive independent directors as in case of other companies. There is also need to review and take a stand on a reasonable board level representation for private shareholders when there is mixed ownership between Government and the private sector. ***Public Sector Companies*** The boards of PSEs should have core group of well qualified/experienced professional non-executive directors who are truly independent.
Independence	• **CODES AND PRINCIPLES** ***OECD Principles*** • Board independence usually requires that a sufficient number of board members not be employed by the company and not be closely related to the company or its management through significant economic, family or other ties. This does not prevent shareholders from being members. • Members should be required to disclose any material interests in transactions or matters affecting the corporation. ***LSE Combined Code*** • A majority of non-executive directors should be independent of management and free from any business or other relationship that could interfere with their independent judgement; they should be identified in the annual report.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	• SEBI • Independent non-executive directors have a key role in the entire mosaic of corporate governance. Independence is defined as: "Independent directors are directors who apart from receiving director's remuneration do not have any other material pecuniary relationship or transactions with the company, its promoters, its management, or its subsidiaries, which in the judgement of the board may affect their independence of judgement." Further, all pecuniary relationships or transactions of the non-executive directors should be disclosed in the annual report. • CURRENT PROVISIONS • Companies • Director shall not enter into any contract with the company for sale, purchase, etc. of goods without the consent of Board of Directors of the company, except in certain cases. (S.297) • Director shall disclose his interest in any contract or arrangement at a meeting of the Board of Directors. • Banks • Section 20 of BR Act, 1949 prohibits loans and advances to directors or to any firm or company in which directors are interested or loans to individuals in respect of whom any of its directors is a partner or guarantor. However, where transactions are not barred by law, special monitoring of transactions with related parties, including large shareholders is not always subjected to special monitoring. Disclosure of interest by directors is mandatory and in case there is any likelihood of conflict of interest arising, the concerned director is required to abstain from participating in the decision-making process relating to that case. *Public Sector Companies* • The concept of independence of directors does not appear to have found its place in the existing Government guidelines. *ISSUES / RECOMMENDATIONS* *Companies / Banks / Public Sector Companies* • The definition of independence to be followed by all companies, including banks and public sector companies, should be the definition recommended by the Blue Ribbon Committee in the context of the audit committees, which is as follows: • "Members ... shall be considered independent if they have no relationship to the corporation that may interfere with the exercise of their independence from management and the corporation. • Examples of such relationships include: • A director being employed by the corporation or any of its affiliates for the current year or any of the past five years; • A director accepting any compensation from the corporation or any of its affiliates other than compensation for board service or benefits under a tax-qualified retirement plan;

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	• A director being a member of the immediate family of an individual who is, or has been in any of the past five years, employed by the corporation or any of its affiliates as an executive officer; • A director being a partner in, or a controlling shareholder or an executive officer of, any for-profit business organisation to which the corporation made, or from which the corporation received, payments that are or have been significant to the corporation or business organisation in any of the past five years; • A director being employed as an executive of another company where any of the corporation's executives serves that company's compensation committee." In the Indian context the directors nominated by the government on the boards of PSUs and PSBs and all nominees of the regulators should not be considered as independent. A majority of non-executive directors should be independent of management and free from any business or other relationship that could interfere with their independent judgement; they should be identified in the annual report.
Orientation & Training	<u>**CODES AND PRINCIPLES**</u> ***OECD Principles*** Not covered. ***LSE Combined Code*** Training should be available to any director upon appointment to the board. ***SEBI*** Not covered. <u>**CURRENT PROVISIONS**</u> ***Companies / Banks / Public Sector Companies*** There is no practice in Indian companies of pre-induction meeting/briefing or any post-induction orientation. <u>**ISSUES / RECOMMENDATIONS**</u> ***Companies / Banks / Public Sector Companies*** Only experts, such as those having financial, technical or legal knowledge or specialisation in the area of operations of the company, should be appointed to the board. However, some training on board practices should be imparted to the elected members at the cost of the company. For this purpose, an Institute of Directors could be set up.
Multiple Board Seats	<u>**CODES AND PRINCIPLES**</u> ***OECD Principles*** Service on too many boards can interfere with performance. Specific limitations may be less important than ensuring that members of the board enjoy legitimacy and confidence in the eyes of the shareholders.

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	LSE Combined Code Not covered. *SEBI* A director should not be a member in more than 10 committees or act as chairman of more than five committees across all companies in which he is a director. There should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place. (Mandatory Recommendation) CURRENT PROVISIONS *Companies* Directors are required to disclose other directorships, the total number of which should not be more than 15 companies. (S.275] The Board may appoint a person Managing Director in more than one company, subject to passing of unanimous resolution. (S.316) *Banks* A person cannot be on the boards of two banking companies simultaneously. *Public Sector Companies* As per the Companies Act, Directors are required to disclose other directorships, the total number of which should not be more than 15 companies. (S. 275) Section 316 of the Companies Act, which stipulates that the Board may appoint a person Managing Director in more than one company, subject to passing of unanimous resolution, does not apply to a Government company where entire paid-up capital is held by Central/State Government. A full-time Director can hold post in only one PSE. ISSUES / RECOMMENDATIONS *Companies / Banks / Public Sector Companies* In case of all companies, the maximum limit for a director serving on multiple boards should be 10. The same director should also not be a member of too many committees (preferably not more than 5/6 committees).
Chairman and CEO	CODES AND PRINCIPLES *OECD Principles* *In unitary board systems, the separation of the roles is often proposed.* *LSE Combined Code* There should be a clear division of responsibilities at the head of the company which will ensure a balance of power and authority, such that no one individual has unfettered powers of direction. Any decision to combine these two positions must be publicly justified; in all circumstances, a strong and independent non-executive element must

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	sit on the board with a senior independent director, other than the Chairman to whom concerns can be brought and who, together with the Chairman and CEO, should be identified in the annual report. *SEBI* Chairman's role should in principle be different from that of the chief executive, though the same individual may perform both the roles. A non-executive Chairman should be entitled to maintain a Chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties to enable him to discharge the responsibilities effectively. **CURRENT PROVISIONS** *Companies* No specific provisions. *Banks* The Government has been in control of the appointment of Chief executive and has preferred the composite position of Chairman and Managing Director. *Public Sector Companies* As per DPE Guidelines, the Board of PSE should normally be headed by a single Chairman-cum-Managing Director. This post should not be kept vacant for very long. The temporary vacancies of Chairman and Managing Directors of PSEs can be filled in by giving officiating charge to the senior most Functional Director on the Board of the concerned enterprise. **ISSUES / RECOMMENDATIONS** *Companies* If the CEO is also the Chairman of the Board, more than 50 per cent of the board members should be independent. It is preferable to separate the role of CEO from the Chairman of the Board. *Banks* The universal preference these days is separation of the functions of Chairman and MD/CEO. Chairman should be independent, objective, ethical and experienced to manage the diversities among shareholders, stakeholders and management. *Public Sector Companies* The post of CEO in many cases keeps on lying vacant for months and these undertakings are looked after by the Joint Secretaries of the Ministry as additional charge. Immediate steps should be taken to delink the posts of Chairman and CEO of the PSBs from the officials of the administrative ministries. Further it is also preferable to separate the role of CEO/MD from the Chairman of the Board.

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<tr><th>ISSUE</th><th>CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS</th></tr>
<tr><td colspan="2">Board Committees</td></tr>
<tr><td>Audit Committee</td><td><u>CODES AND PRINCIPLES</u>
OECD Principles
Boards may consider establishing this committee with a minimum number or to be composed entirely of non-executive members.
LSE Combined Code
The audit Committee should comprise at least three non-executive directors, a majority of whom should be independent, with written terms of reference that identify their authority and who should be named in the annual report.
Blue Ribbon Committee Report
Audit Committees play an important role in the larger governance process through oversight of financial reporting. A proper and well functioning system exists when the three main groups responsible for financial reporting—the full board including the audit committee, financial management including the internal auditors, and the outside auditors—form a "three-legged stool" that supports responsible financial disclosure and active and participatory oversight. The audit committee is an extension of the full board and hence the ultimate monitor of the process.
Recommendations for performance of audit committees:
NYSE and NASDAQ adopt the following definition of independence for purposes of service on the audit committee of listed companies: "Members of the audit committee shall be considered independent if they have no relationship to the corporation that may interfere with the exercise of their independence from management and the corporation".
• The audit committees to be comprised solely of independent directors.
• The audit committees to be comprised of a minimum of three directors, each of whom is financially literate or becomes financially literate within a reasonable period of time. Further, at least one member of the audit committee should have accounting or related financial management expertise.
• The audit committee of each listed company to (i) adopt a formal written charter that is approved by the full board of directors and that specifies the scope of the committee's responsibilities, and how it carries out those responsibilities, including structure, processes, and membership requirements, and (ii) review and reassess the adequacy of the audit committee charter on an annual basis.
• SEC to promulgate rules that require the audit committee to disclose in the company's proxy statement for its annual meeting of shareholders whether the audit committee has adopted a formal written charter, and, if so, whether the audit committee satisfied its responsibilities during the prior year in compliance with its charter.</td></tr>
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	• The audit committee charter for every listed company specify that the outside auditor is ultimately accountable to the board of directors and the audit committee, as representatives of shareholders. These shareholder representatives have the ultimate authority and responsibility to select, evaluate, and, where appropriate, replace the outside auditor. • The audit committee charter for every listed company specify that the audit committee is responsible for ensuring its receipt from the outside auditors of a formal written statement delineating all relationships between the auditor and the company. • Generally Accepted Accounting Standards (GAAS) require that a company's outside auditor discuss with the audit committee the auditor's judgements about the quality, not just the acceptability, of the company's accounting principles as applied in its financial reporting. • SEC requires all reporting companies to include a letter from the audit committee in the company's annual report disclosing whether or not (i) management has reviewed the audited financial statements with the audit committee, (ii) the outside auditors have discussed with the audit committee the outside auditors' judgements of the quality of accounting principles, (iii) the members of the audit committee have discussed among themselves the information disclosed to the audit committee, and (iv) the audit committee believes that the company's financial statements are fairly presented in conformity with GAAP in all material respects. SEC requires that a reporting company's outside auditor conduct an Interim Financial Review. **BIS** The audit committee of banks should provide oversight of the bank's internal and external auditors, approving their appointment and dismissal, reviewing and approving audit scope and frequency, receiving their reports and ensuring that management is taking appropriate corrective actions in a timely manner. The independence of this committee can be enhanced when it is comprised of external board members who have banking and financial expertise. ***SEBI*** A qualified and independent audit committee should be set up by the board of a company with a view to enhancing the credibility of the financial disclosures of a company and promoting transparency. (Mandatory Recommendation) The audit committee should have minimum three members, all being non-executive directors, with the majority being independent, and with at least one director having financial and accounting knowledge. (Mandatory Recommendation) The Chairman of the committee should be an independent director and should be present at AGM to answer shareholder queries. (Mandatory Recommendation) The audit committee should meet at least thrice a year. One meeting must be held before finalisation of annual accounts and one necessarily

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	every six months. (Mandatory Recommendation) As the Audit Committee acts as the bridge between the board, the statutory auditors and internal auditors, its role should include the following: • Oversight of company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible. • Recommending the appointment and removal of external auditor, fixation of audit fee and also approval of payment for any other services. • Reviewing with the management the annual financial statements before submission to the board, focussing primarily on any changes in accounting polices and practices, major accounting entries based on exercise of judgement by management, qualifications in draft audit report, significant adjustments arising out of audit, the going concern assumptions, compliance with accounting standards, compliance with stock exchange and legal requirements concerning financial statement, any related party transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the company at large • Reviewing adequacy of internal control systems and functions • Reviewing the company's financial and risk management policies. • Looking into the reasons for substantial defaults in the payments to depositors, debenture holders, shareholders, and creditors. • Reviewing/looking into the matters where there is a suspected fraud or irregularity or a failure of internal control system of material nature and reporting the matter to the board. **CURRENT PROVISIONS** ***Companies*** The detailed provisions in respect of Audit Committees have been incorporated in the Companies (Amendment) Act, 1999. ***Banks*** Banks in India are required to set up an audit committee of board of directors to oversee and provide direction to the internal audit/inspection function in banks in order to enhance its effectiveness as a management tool. The CMD of the bank is not a member of the audit committee to ensure independence in its functioning. The members of the audit committee comprise of the ED of the bank, two official directors (nominees of RBI and Government) and two non-official and non-executive directors, at least one of them being a professional Chartered Accountant. The Chartered Accountant director presides over the meetings.

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	Public Sector Companies Section 619 of the Companies Act lays down the procedure for the audit of accounts of govt. companies. Sec. 224 to 233 of the Cos. Act, which deal with appointment and remuneration of auditors, resolution for appointing/removing auditors, qualification/ disqualification of auditors, powers/duties of auditors and signing of audit report, etc., do not apply to govt. companies. The auditor of a govt. company is appointed by the Central Government on the advice of the Comptroller and Auditor General of India (CAG), who directs the manner in which the accounts of government companies shall be audited. The audit report is submitted to the CAG, who comments upon or supplements the auditor's report. The comments of the CAG along with the audit report are placed before the AGM of the company. **ISSUES / RECOMMENDATIONS** ***Companies / Banks / Public Sector Companies*** All types of companies need to ensure that audit committee of the board functions effectively and independently. It is therefore desirable that the majority of the members of the audit committee should be non-official professionals. It is recommended that the audit committees should be formed as per the recommendations of the Blue Ribbon Committee in all companies, including banks and public sector enterprises. In particular, the following points must be incorporated: • Audit Committees play an important role in the larger governance process through oversight of financial reporting. A proper and well functioning system exists when the three main groups responsible for financial reporting—the full board including the audit committee, financial management including the internal auditors, and the outside auditors—form a "three-legged stool" that supports responsible financial disclosure and active and participatory oversight. The audit committee is an extension of the full board and hence the ultimate monitor of the process. • The following definition of independence for purposes of service on the audit committee of listed companies must be adopted. Members of the audit committee shall be considered independent if they have no relationship to the corporation that may interfere with the exercise of their independence from management and the corporation. • The audit committees to be comprised solely of independent directors. • The audit committees to be comprised of a minimum of three directors, each of whom is financially literate or becomes financially literate within a reasonable period of time. Further, at least one member of the audit committee should have accounting or related financial management expertise. • The audit committee of the company should (i) adopt a formal written charter that is approved by the full board of directors and that specifies the scope of the committee's responsibilities, and how it carries out those responsibilities, including structure, processes, and membership requirements, and (ii) review and reassess the adequacy of the audit

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	committee charter on an annual basis. • The audit committee to disclose in the company's proxy statement for its annual meeting of shareholders whether it has adopted a formal written charter, and, if so, whether the audit committee satisfied its responsibilities during the prior year in compliance with its charter. • The audit committee charter should specify that the audit committee is responsible for ensuring its receipt from the outside auditors of a formal written statement delineating all relationships between the auditor and the company. • Generally Accepted Accounting Standards (GAAS) require that a company's outside auditor discuss with the audit committee the auditor's judgements about the quality, not just the acceptability, of the company's accounting principles as applied in its financial reporting. • All reporting companies to include a letter from the audit committee in the company's annual report disclosing whether or not (I) management has reviewed the audited financial statements with the audit committee, (ii) the outside auditors have discussed with the audit committee the outside auditors' judgements of the quality of accounting principles, (iii) the members of the audit committee have discussed among themselves the information disclosed to the audit committee, and (iv) the audit committee believes that the company's financial statements are fairly presented in conformity with GAAP in all material respects. The audit committees should not function merely as super inspection departments of banks as they are doing currently. They should basically provide oversight of the bank's internal and external auditors, approving their appointment and dismissal, reviewing and approving audit scope and frequency, receiving their reports and ensuring that management is taking appropriate corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors. The Government companies follow a very different procedure for audit at present. The audit is conducted as per the procedure laid down by the Comptroller and Auditor General of India (CAG). It is desirable that the audit committees should be formed in Government companies as per the recommendations of the Blue Ribbon Committee to perform a distinct role. The role of CAG and audit committees should not be mixed up as CAG looks at audit from propriety angle.
Nomination Committee	**<u>CODES AND PRINCIPLES</u>** ***OECD Principles*** Boards may consider establishing remuneration committee with a minimum number or to be composed entirely of non-executive members. ***LSE Combined Code*** A majority of the members of the nomination committee should be non-executive directors and the chairman of the committee should either the chairman of the board or a non-executive director. The chairman and members of the committee should be identified in the annual report.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	BIS Nomination committee should be set up for providing assessment of the board effectiveness and directing the process of reviewing and replacing board members. **SEBI** **Not covered.** **<u>CURRENT PROVISIONS</u>** ***Companies*** Nomination committees do not exist in companies at present. ***Banks*** Banks do not have nomination committees for nominating directors on boards of banks. ***Public Sector Companies*** The concept of nomination committee of the board does not exist in the Government companies at present. **<u>ISSUES / RECOMMENDATIONS</u>** ***Companies/Banks/PSUs*** Boards of companies, banks, and PSUs should set up nomination committees consisting of at least three independent board members. The nomination committee should have the responsibility of proposing new nominees for the board and assessing directors on an ongoing basis. Such a review should be conducted on an annual basis so that boards are manned by persons with the appropriate skills and experience.
Remuneration Committee	**<u>CODES AND PRINCIPLES</u>** ***OECD Principles*** Boards may consider establishing this committee with "a minimum number or be composed entirely of non-executive members". ***LSE Combined Code*** Remuneration committees should be made up exclusively of non-executive directors who make recommendations on the company's framework of executive remuneration and who must operate independently from managerial interference and from any intrusive business relationship; they should be granted full authority to seek counsel from both inside and outside sources. They should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. **BIS** A Compensation Committee should be set up for providing oversight of remuneration of senior management and other key personnel and ensuring that compensation is consistent with the bank's culture, objectives, strategy and control environment.

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<tr><th>ISSUE</th><th>CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS</th></tr>
<tr><td></td><td>SEBI
The board should set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors, including pension rights and any compensation payment. (Non-mandatory Recommendation)
The remuneration committee should comprise of at least three directors, all of whom should be non-executive directors, the chairman of the committee being an independent director. (Non-mandatory Recommendation)
The Chairman of the remuneration committee should be present at the AGM to answer the shareholder queries. (Non-mandatory Recommendation)
<u>CURRENT PROVISIONS</u>
Companies/Banks/PSUs
The remuneration committees do not exist at present.
<u>ISSUES / RECOMMENDATIONS</u>
Companies / Banks / Public Sector Companies
The boards should be required to form remuneration committees. Remuneration committee should be made up exclusively of non-executive independent directors who make recommendations on the company's framework of remuneration for the full time directors and senior employees of the company. The committee should operate independently from managerial interference and from any intrusive business relationship; they should be granted full authority to seek counsel from both inside and outside sources. This should be a mandatory recommendation.</td></tr>
<tr><td>Committee to redress shareholder complaints</td><td><u>CODES AND PRINCIPLES</u>
OECD Principles
Not covered.
LSE Combined Code
Not covered.
SEBI
A board committee under the chairmanship of a non-executive director should be formed to specifically look into the redress of shareholder complaints relating to transfer of shares, non-receipt of balance sheet etc. (Mandatory Recommendation)
To expedite the process of share transfers, the board should delegate the power of share transfer to an officer or a committee or to the registrars and share transfer agents. The delegated authority should attend to share transfer formalities at least once in a fortnight. (Mandatory Recommendation)</td></tr>
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ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	<u>**CURRENT PROVISIONS**</u> ***Companies / Public Sector Companies*** No specific provisions exists for such a committee. <u>**ISSUES/ RECOMMENDATIONS**</u> ***Companies*** Board committee as recommended by SEBI should be formed.
Board Meeting:	<u>**CODES AND PRINCIPLES**</u> ***OECD Principles*** Not covered. ***LSE Combined Code*** The board should meet regularly and have a formal schedule of matters specifically reserved to it for decision. ***SEBI*** The board meetings should be held at least four times in a year, with a maximum time gap of four months between any two meetings. The Committee has prepared a list of minimum information to be placed before the board of directors. (Mandatory Recommendation) <u>**CURRENT PROVISIONS**</u> ***Companies/PSUs*** The board of directors is legally bound to meet at least once every three months. There should be 4 meetings every year. (S.285) The meetings can be held at any place convenient to the directors. ***Banks*** Nationalised banks have to hold at least six board meetings in a year and at least once in a quarter. <u>**ISSUES / RECOMMENDATIONS**</u> ***Companies / Banks / Public Sector Companies*** The boards of large companies and banks should meet at least six times a year. Through suitable legal provisions in the Companies Act, attending of board meetings through video-conferencing facilities should be recognised as valid attendance. This is particularly necessary to facilitate participation in or attendance of some of the directors who are normally located abroad or on tour to a different place on urgent business.
Tenure of Directors	<u>**CODES AND PRINCIPLES**</u> ***OECD Principles*** Not covered. ***LSE Combined Code*** ***SEBI*** Not covered, except re-election every three years.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	The tenure of office of the directors will be as stipulated in the Companies Act. **CURRENT PROVISIONS** ***Companies*** The Managing Director cannot be appointed for more than 5 years at a time. (S.317) ***Banks*** The tenure of whole time directors of nationalised banks is up to five years at time and that of other directors three years. ***Public Sector Companies*** S.317 of the Companies Act, which stipulates that the Managing Director cannot be appointed for more than 5 years at a time, does not apply to a Government company. **ISSUES / RECOMMENDATIONS** ***Companies / Banks / Public Sector Companies*** The term limits for independent directors may preferably be up to 10 years in a stretch.
Age limits	**CODES AND PRINCIPLES** ***OECD Principles / LSE Combined Code /SEBI*** Not covered. **CURRENT PROVISIONS** ***Companies / Banks / Public Sector Companies*** No age limits are specified. **ISSUES / RECOMMENDATIONS** ***Companies / Banks / Public Sector Companies*** All companies should ideally follow the maximum age limit of 65 years for whole-time directors and 75 years for part-time directors.
Liability	**CODES AND PRINCIPLES** ***OECD Principles / LSE Combined Code /SEBI*** Not covered. **CURRENT PROVISIONS** ***Companies*** Liability of directors in a limited company is limited in nature. However, the liability of all directors or of any director or manager may be made unlimited by incorporating an enabling provision to this effect in the memorandum. (S.323) ***Banks*** No provisions.

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	Public Sector Companies S.323 of the Companies Act applies to Government companies. **ISSUES / RECOMMENDATIONS** *Companies / Banks / Public Sector Companies* The liability of non-executive directors should be limited. They should not be held responsible for matters that are not disclosed to the board by the executive directors. The main responsibility and liability thereof in respect of all statutory compliances should solely rest with the CEO/MD.
Nominee Directors	**CODES AND PRINCIPLES** *OECD Principles* Not covered. *LSE Combined Code* Not covered. *SEBI* The financial or investment institutions should appoint nominees on the boards of companies only on a selective basis where such appointment is pursuant to a right under loan agreements or where such appointment is considered necessary to protect the interest of the institution. When a nominee of the institution is appointed as a director of the company he should have the same responsibility, be subject to the same discipline and be accountable to the shareholders in the same manner as any other director of the company. **CURRENT PROVISIONS** *Companies* Not stipulated; the practice may vary from company to company. *Banks* The Bank Nationalisation Act stipulates that one officer of the RBI should be nominated by the Central Government as a director on the board of nationalised banks. *Public Sector Companies* Regarding nominee Directors, the DPE Guidelines stipulate the following: The prime duties of a Government nominee on the Board of Directors of a PSU are to safeguard the interest of the shareholders, contribute to the efficient functioning of the PSUs and report back the same regularly to the Government. The concerned Administrative Ministry is required to ensure that the nominee Directors comply with the responsibility cast on them. **ISSUES / RECOMMENDATIONS** *Companies* To protect their commercial interests lending institutions may stipulate a clause in the loan agreement appoint nominee directors on the boards of companies.

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	Since institutional investors like mutual funds are the trustees of investors' money, they have a special role to play in the Indian context where majority of the companies conform to the 'insider' model and the promoter family interests receive much higher priority over that of the common shareholders. As institutions have much better access to information and better monitoring capabilities they should take interest in corporate governance. Institutions should use their voting rights to get eminent and competent professionals elected as independent directors on the boards of companies especially where they have sizeable shareholdings. ***Banks*** The RBI being the regulator of the banking system, nomination of the RBI official to the board of a bank involves basic conflict of interests. RBI has started withdrawing its nominees from bank boards. It may consider hastening this process of withdrawing its nominees. ***Public Sector Companies*** The Government should lay down specific guidelines to be followed by all nominee directors.
Disclosure of Director Biographical Information	<u>**CODES AND PRINCIPLES**</u> ***OECD Principles*** Not covered. ***LSE Combined Code*** Sufficient biographical data should accompany names of directors submitted for election and re-election by which shareholders may make informed voting decisions. ***SEBI*** In case of appointment of a new director or reappointment of a director, shareholders must be provided with a brief resume of the director, his expertise in specific functional areas and names of companies in which he holds directorship and the membership of committees of the board. (Mandatory Recommendation) <u>**CURRENT PROVISIONS**</u> ***Companies / Banks / Public Sector Companies*** No specific provisions have been laid down. <u>**ISSUES / RECOMMENDATIONS**</u> ***Companies / Banks / Public Sector Companies*** The necessary biographical details of directors should be provided in the Annual Report. The details should also contain pecuniary and/or family relationships, if any, of the directors with the company and its management. All such details should be given to the shareholders when a new director is being elected by them at the general meeting of shareholders.

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Remuneration	
Level and Composition of Remuneration	**CODES AND PRINCIPLES** ***OECD Principles*** Not covered. ***LSE Combined Code*** Levels of remuneration should be sufficient to retain directors with the competence to run the company, but not higher, and should be structured so as to link rewards to performance. Grants under option and other incentive plans should be phased over time, rather than in one large block. Director remuneration should be incentive-oriented for best director performance and be so designed as to align directors' interests with those of shareholders. Annual bonuses, long-term incentive or traditional share option schemes should be considered as supplements to director compensation; any such deferred remuneration or options should not be exercisable until after at least a three-year period. ***SEBI*** Adequate compensation package should be given to the non-executive independent directors so that these positions become financially remunerative to attract talent. The board of directors should decide the remuneration of non-executive directors. The remuneration packages for executive directors to be determined by the remuneration committee. **CURRENT PROVISIONS** ***Companies*** The total remuneration payable by a company to its director and manager shall not exceed 11% of its net profit for a financial year, excluding fees payable to directors for attending meetings of the board or any committee thereof. (S.198) There is an upper limit of remuneration payable to each of the MD or whole-time director individually up to 5% of the net profit and if there is more than such director, 10% for all of them together in a financial year. The perquisites payable are not included in the computation of ceiling limits. Remuneration payable to a director who is not a managing or whole-time director or where there is more than one such director, to all of them taken together, shall not exceed 1% of net profits if the company has MD or whole-time director or manager and 3% of net profits in any other case. (S.309) ***Banks*** In public sector banks, there is no performance-related compensation. Therefore, there is very little incentive or disincentive for good or bad performance. Some private sector banks have moved towards performance-related compensation.

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	Public Sector Companies Sections 198 and 309 of the Companies Act, which deal with remuneration payable by a company, do not apply to Government companies. The remuneration for all board level posts in PSEs is fixed by the Government at a gap of every five years. The part-time Chairman is paid either a fixed monthly honorarium or sitting fee and incidentals subject to a maximum of Rs. 1000/-p.m. They are also entitled to travelling allowance, accommodation, medical benefits, company car, telephone and secretariat assistance as admissible to highest grade officer of the company. This is not applicable to a serving Government officer functioning as part-time Chairman. **ISSUES / RECOMMENDATIONS** ***Companies / Banks / Public Sector Companies*** The remuneration of executive directors should be decided by the board's remuneration committee. Besides the usual sitting fees the non-executive directors should be suitably remunerated for the time devoted by them for the affairs of the company. There should be no such upper limit like Rs. 5000 for sitting fees. Since companies vary in size and complexity and if non-executive directors have to take close interest in the matters of their companies, they should be compensated for the time spent by them.. To secure deeper involvement of non-executive directors, companies should pay a commission over and above the sitting fees for the use of the professional inputs. Companies may also consider offering stock options, so as to relate rewards to performance. An appropriate mix of commissions, which are rewards on current profits, and stock options, which are rewards contingent upon future appreciate of corporate value, would align a non-executive director towards keeping an eye on short term profits as well as longer term shareholder value.
Procedure for Determining Remuneration	**CODES AND PRINCIPLES** ***OECD Principles*** The board should review key executive and board remuneration. ***LSE Combined Code*** Companies should establish formal and transparent procedures for determining remuneration. No director should alone be involved in determining his or her own remuneration. The remuneration committee should take care to position the company among others in the industry so as not to overpay directors when no proportionate improvement in performance may be possible. Executive share options should not be priced at a discount except when authorised by the listing rules. Director performance conditions should be factored into determination of bonuses, with upper limits and period-related partial payments. Criteria such as performance and the company's position among companies should factor into the determination of all incentive schemes.

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	SEBI The board of directors should decide the remuneration of non-executive directors. (Mandatory Recommendation) CURRENT PROVISIONS *Companies* No specific provisions have been laid down. *Banks* For public sector banks, decided and reviewed every 5 years through a process of industry-wide wage negotiations. *Public Sector Companies* Decided by the Pay Commission. ISSUES / RECOMMENDATIONS *Companies / Banks / Public Sector Companies* The remuneration committee should follow a clearly laid down and transparent procedure for determining remuneration to the board. The remuneration committee should take care to position the company among others in the industry so as not to overpay directors when no proportionate improvement in performance may be possible. Executive share options should not be priced at a discount except when authorised by the listing rules. Criteria such as performance and the company's position among companies in the same or similar industry should factor into the determination of all incentive schemes.
Disclosure of Remuneration	CODES AND PRINCIPLES *OECD Principles* Companies are generally expected to disclose sufficient information on the remuneration of board members and key executives (either individually or in the aggregate) for investors to properly assess the costs and benefits of remuneration plans and the contribution of incentive schemes, such as stock option schemes, to performance. *LSE Combined Code* Membership in the remuneration committee must be annually reported to shareholders. The annual report should include statements to shareholders regarding remuneration policy and the state of accounts. The report of the remuneration committee should identify each director and specify their total compensation package; regarding share options, it should include a statement of compliance with the Accounting Standards Boards' urgent issues task force Abstract 10 and explanations of any lump sum payments. Directors' total remuneration package, including share options and pension arrangements, should be subject to audit.

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	SEBI The disclosures regarding all elements of remuneration package of all the directors, i.e. salary, benefits, bonuses, stock options, pension etc. should be made to the shareholders. (Mandatory Recommendation) CURRENT PROVISIONS *Companies/PSUs* Companies are required by law to disclose in the annual report all the payments made to the directors and all employees drawing annual compensation/salary above Rs **Banks** A number of banks do not disclose the entire compensation package of their full time directors. ISSUES / RECOMMENDATIONS *Companies / Banks / Public Sector Companies* The remuneration packages of all directors should be disclosed in the annual report. Membership in the remuneration committee must be annually reported to shareholders. The annual report should include statements to shareholders regarding remuneration policy and the state of accounts. The report of the remuneration committee should identify directors individually and specify their compensation packages. Directors' total remuneration package, including share options and pension arrangements, should be subject to audit.
Shareholder Involvement in Determining Remuneration	CODES AND PRINCIPLES *OECD Principles* Not covered. *LSE Combined Code* Shareholders should approve any long term incentive schemes for executives and either decide compensation of non-executive and remuneration committee members or, if the articles allow, the board should delegate a sub-committee to address this matter, the AGM should be considered a convenient forum for shareholder approval of remuneration policy. Shareholders may be called on to approve the board's remuneration report, and they should approve any new or supplemental long-term incentive. *SEBI* Not covered. CURRENT PROVISIONS *Companies / Banks / Public Sector Companies* No specific provisions have been laid down.

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	<u>ISSUES / RECOMMENDATIONS</u> *Companies / Banks / Public Sector Companies* The shareholders should have the final say in approving remuneration of the full-time as well as the non-executive directors. The remuneration packages of senior employees holding key executive posts should be approved by the board and full details thereof should be disclosed to the shareholders.
ROLE OF SHAREHOLDERS	
Shareholder Rights and Shareholder Voting	<u>CODES AND PRINCIPLES</u> *OECD Principles* The corporate governance framework should protect shareholders' rights. Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and information about rules, including voting procedures, that govern general shareholder meetings: Shareholders should receive sufficient and timely information about the date, location and agenda of general meetings. Subject to reasonable limitations, investors should have the opportunity to ask questions of the board and place items on agenda. Shareholders should be able to vote in person or in absentia, with equal weight for the two. Shareholders, including institutional investors, should consider the costs and benefits of exercising their voting rights. *LSE Combined Code* Shareholders have a responsibility to make considered use of their votes. Unless a poll is called, all proxy votes should be counted, and after resolutions have been dealt with on a show of hands, the company should indicate the number of proxy votes cast, along with for and against vote, on each resolution. *SEBI* A company must have appropriate systems in place, which will enable the shareholders to participate effectively and vote in the shareholders' meetings. The company should also keep the shareholders informed of the rules and voting procedures, which govern the general shareholder meetings. <u>CURRENT PROVISIONS</u> *Companies* All shareholders are guaranteed the right to participate and vote in company meetings and shareholder ballots. All matters of importance regarding a company's functioning require shareholder approval. Shareholders have a right to vote by proxy and are entitled to appoint another person as his/her proxy, irrespective of whether the proxy is a shareholder or not. A proxy has the right to attend and vote, but

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	cannot speak at the meeting. The concept of postal ballot has been introduced in the Companies (Amendment Act), 1999. Shareholders can approach CLB, the courts or SEBI for redress when their legal rights are violated. The minority shareholders can apply to CLB for redress against oppression and mismanagement, subject to the minimum requirement of not less than one hundred members or 1/10th of the total number of members whichever is less, or any member's holding not less than 1/10th of the issued share capital.(S.397-399) The Companies Act requires all shares and all share transfers to be registered. Companies are required to maintain up-to-date registers of shareholders and debenture-holders. Registers must be available for public scrutiny. *Banks* The shareholders' rights of public sector banks stand considerably abridged since their approval is not required for paying dividend or approving accounts at the AGM. The voting rights of a shareholder in a public sector bank do not exceed 1% irrespective of the size of holdings. In the case of the private sector banks this limit is 10%. *Public Sector Companies* The provisions in the Companies Act apply to Government companies. **ISSUES / RECOMMENDATIONS** *Companies/PSUs* A system of electronic voting should be introduced to enable shareholders to vote at the AGMs. Institutional investors should favour a dialogue with companies to determine mutual objectives. They should encourage regular and systematic contact at senior executive level to exchange views and information on strategy, performance, board membership and quality of management. They should also provide checks and balances to prevent unhealthy concentration of decision-making power. The institutional shareholders can also play a role in appointment of independent non-executive directors of necessary calibre, competence, and experience. While it is true that the shareholders have the appellate powers and some of them have been successful at redressing infringement of their rights, it is also a well-known fact that the judicial process in India is slow. Investor complaints should be brought under the purview of the Arbitration Act so that quick relief could be granted. Stock exchanges should be made the focal point for such arbitration process involving investor complaints. *Banks* Presently, the Government is the dominant owner of the Indian banking sector. The imposition of decisions by the dominant owner influences the shareholder value. In view of the growing shareholding by the public in the capital of public sector banks, it would be necessary to move amendments to the

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	Bank Nationalisation Act to provide for greater representation to the public shareholders at least in proportion to their shareholding. For infusing increased corporate governance in banks, shareholders should have the right to discuss, vote on, and approve the profit and loss account and the balance sheet, at the AGM of the banks. The relevant provisions of the Bank Nationalisation Act which does not provide for voting and approving the accounts by shareholders should be amended.
General Meetings	**CODES AND PRINCIPLES** ***OECD Principles*** Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders. ***LSE Combined Code*** Board should use the AGM as the primary means of direct communication with shareholders. Notices for AGMs should be sent to shareholders at least twenty working days before the meeting. ***SEBI*** The AGMs of the company should not be deliberately held at venues or the timing should not be such which makes it difficult for most of the shareholders to attend. The company must also ensure that it is not inconvenient or expensive for shareholders to cast their vote. **CURRENT PROVISIONS** ***Companies*** The Companies Act mandates companies to have an AGM of their shareholders. The notice of the AGM has to be posted to all shareholders 21 days prior to the meeting, containing the company's reports and accounts, the agenda, all resolutions that are to be discussed in the meeting and a proxy form. Shareholders accounting for at least 1/10th of the paid-up share capital have the right to call an extraordinary general meeting. If the request is supported by reason and signatures, its is incumbent upon the board to announce such a meeting and hold it within 45 days. ***Banks*** As per RBI's instructions, banks should hold AGMs where the bank is having its head/corporate office. ***Public Sector Companies*** The provisions of the Companies Act apply to Government companies also. **ISSUES / RECOMMENDATIONS** ***Companies / Banks / Public Sector Companies*** The AGMs should be held at the town/city, where the CEO of the company is located/headquartered. The company should also hold one or two general meetings of shareholders a year by rotation at different places where large number of shareholders reside so that common

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	shareholders have opportunities to interact with the board and management of the company. The timing of such meetings should be convenient from shareholders' point.
Evaluation of Governance Disclosures	**CODES AND PRINCIPLES** ***OECD Principles*** Not covered ***LSE Combined Code*** Companies should have a free hand to explain their governance policies in the light of the principles, and shareholders and others must evaluate the company's statement and explanations. Institutional shareholders should eliminate trivial variations over investment criteria that they may apply to issues of corporate governance and company performance, provide their clients with their complete voting record and monitor results of their voting intentions and influence. ***SEBI*** There should be a separate section on corporate governance in the annual reports of companies, with detailed compliance report on Corporate Governance. Non-compliance of any mandatory recommendation with reasons thereof and the extent to which the non-mandatory recommendations have been adopted should be specifically highlighted. The company should arrange to obtain a certificate from its auditors regarding compliance of mandatory recommendations and annex the certificate to the directors' report to be sent to all shareholders and the stock exchanges. **CURRENT PROVISIONS** ***Companies / Banks / Public Sector Companies*** No specific provisions exist. **ISSUES / RECOMMENDATIONS** ***Companies / Banks / Public Sector Companies*** Companies should make special efforts in explaining company's governance policies, business ethics, and the environment and other public policy commitments. The disclosure should help shareholders and others to evaluate the company's statement and explanations. All large companies should arrange to get evaluated the quality of all their disclosures to the shareholders and the stakeholders. This evaluation job should be entrusted to an independent agency, which can audit the quality of disclosures. This evaluation report should be sent to all the shareholders.
Shareholder Resolutions	**CODES AND PRINCIPLES** ***OECD Principles / LSE Combined Code / SEBI*** Not covered. **CURRENT PROVISIONS** ***Companies / Public Sector Companies*** There are two classes of resolutions- ordinary and special. Ordinary

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	resolutions, such as, election and removal of directors, appointment of external auditors, remuneration of directors, payment of dividend, approval of annual accounts and the routine matters relating to the conduct of a company, are passed with the approval of more than 50 per cent of the shareholders present and voting. Special resolutions, such as, buy-back of shares, proposed merger or de-merger, changing the name of the company, altering the memorandum and articles of association or the registered address of the company from one state to another, voluntary winding of the company and similar decisions require special resolutions with the approval of 75 per cent of those present and voting. These apply to Government companies also. ISSUES / RECOMMENDATIONS *Companies / Banks / Public Sector Companies* Shareholders have a right to participate in all major decisions. However, the small shareholders often find it difficult to get their voice to the board. The recent amendment to the Companies Act has not made it mandatory to have representative of the small shareholders on the board. Therefore, through suitable legislative amendments, the voting rights of small shareholders should strengthened by introducing a provision for compounding of voting rights for small shareholders so that they are able to get their representative elected to the board.
FINANCIAL REPORTING, TRANSPARENCY AND AUDIT	
Financial Reporting	CODES AND PRINCIPLES *OECD Principles* The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters including the financial situation, performance, ownership and governance of the company. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. *LSE Combined Code* Both directors and auditors should be required to make formal statements of their audit reporting responsibilities. *SEBI* Information like quarterly results, and presentations by companies to analysts may be put on the company's web-site or may be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site. (Mandatory Recommendation) Half-yearly declaration of financial performance, including summary of the significant events in last six months, should be sent to the household of each shareholder. (Non-mandatory Recommendation) CURRENT PROVISIONS *Companies* All companies are required to prepare audited annual accounts, which are first submitted to the board for approval, then filed with the

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	Registrar of Companies. The annual accounts must contain in the prescribed format the balance sheet, profit and loss account, their schedules, the auditor's notes on accounts and qualifications (if any), together with the directors' report for the year. ***Banks*** All banks are required to prepare audited annual accounts which contain in the prescribed format the balance sheet, profit and loss account, their schedules, the auditor's notes on accounts and qualifications (if any), together with the directors' report for the year. ***Public Sector Companies*** All companies are required to prepare audited annual accounts which contain in the prescribed format the balance sheet, profit and loss account, their schedules, the auditor's notes on accounts and qualifications (if any), together with the directors' report for the year. Both in regard to statutory corporations and Government Companies, it has been prescribed that the Annual Report together with the audited accounts and audit report for any particular year should be laid on the Table of the Parliament within 9 months of the close of the accounting year. **ISSUES / RECOMMENDATIONS** ***Companies / Banks / Public Sector Companies*** The boards of all types of companies should ensure the integrity and consistency of their reports and they should meet the financial reporting standards in letter as well as in spirit. In addition to presenting information, which is already being presented as part of the annual accounts, they should also report certain key financial ratios, which reflect the health of the company.
Disclosure and Transparency	**CODES AND PRINCIPLES** ***OECD Principles*** Disclosure should include, but not be limited to, material information on the financial and operating results of the company; and material foreseeable risk factors. Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed. **BIS** Transparency can reinforce sound corporate governance. Therefore, public disclosure is desirable in the following areas: • Board structure (size, membership, qualifications, and committees) • Senior management structure (responsibilities, reporting lines, qualification and experience) • Basic organisational structure (line of business structure, legal entity structure) • Nature of transactions with affiliates and related parties

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	LSE Combined Code The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. *SEBI* As shareholders have a right to participate in, and be sufficiently informed on decisions concerning fundamental corporate changes, they should not only be provided information as under the Companies Act, but also in respect of other decisions relating to material changes such as take-overs, sale of assets or divisions of the company and changes in capital structure which will lead to change in control or may result in certain shareholders obtaining control disproportionate to the equity ownership. **CURRENT PROVISIONS** *Companies / Public Sector Companies* Shareholders have a right to receive copies of balance sheet and auditors' report. (S.219) The balance sheet and profit and loss account should give true and fair view of the state of affairs of the company.(S.211) Under the provisions of the Listing Agreement, all listed companies are required to make detailed disclosures. The companies are legally bound to make timely disclosure of material and price sensitive information including material events having a bearing on the performance of the company to every stock exchange where they are listed and to the regulators. *Banks* The standards of banks' disclosures, generally, fall short of international standards. However, there has been some improvement in this regard. The Reserve Bank has mandated the disclosure of some of the essential strength indicators as also performance-related parameters as part of the Notes to the balance sheets of banks. The banks are also required to disclose their accounting policies. Moreover, they are required to disclose maturity pattern of loans and advances, investment securities, deposits and borrowings, etc. **ISSUES / RECOMMENDATIONS** *Companies / Public Sector Companies* At present, the continuous disclosure requirements for material events to be complied by the listed companies are governed by the listing agreement (Clause 36). Though the clause was introduced about two years ago, compliance of this clause by some companies has been slack primarily due to the absence of enforcement and penal mechanism for non-compliance with the listing agreement. Many corporates disseminate price sensitive information to a section of the public, namely, analysts or a section of the press, some of it informally. This information is not made available to the stock exchanges. The issuers of listed securities must disclose such

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	information simultaneously or in any case not later than 8.30 a.m. on the next day to the stock exchanges and issue appropriate press releases. Many times, substantial volatility in the price of the shares is observed when a piece of information pertaining to the company appears in the press. Sometimes, the piece of information could be a rumour or erroneously published. In such events, the company should issue a clarification to the stock exchanges and also issue press release to the newspapers either dispelling the rumours/reports or confirming/clarifying the same. All large listed companies should have a website, where they should put all information as the same is furnished to the stock exchanges, as also the information disseminated to a class of public, including analysts or the press reports. The intimation regarding the board meeting at which declarations on dividend or rights or bonus are due to be considered (Clause 19 of the Listing Agreement) should reach the stock exchange at least 7 days before the date of the meeting or simultaneously along with the notices of the meeting sent to directors, whichever is earlier. The following events/purposes may also be included for timely disclosures: any equity issue or equity linked issue, issue of shares to employees under ESOP/ESPS Scheme, stock split, consolidation, buy back of shares, merger, amalgamation, acquisition, hiving off, take over, voluntary winding up, etc. **Disclosure of ownership**: stock exchange listing agreements require share ownership to be declared on the basis of individual promoters, DFIs, FIIs, mutual funds, foreign holdings, other corporate bodies, top 50 shareholders, and other shareholders. In addition, investors crossing the five per cent threshold must inform the relevant stock exchange and SEBI. The ownership classification used by Indian stock exchanges does not provide a transparent picture of share control due to the prevalence of complex cross-holdings across family or group controlled conglomerates. The shareholding pattern, in particular the shares of those in control of the management of the company, institutional investors, FIIs and mutual funds and other major shareholders must be disclosed. It is desirable that in its proposed information dissemination site on the Pattern of EDGAR in the US, SEBI may consider giving all the disclosures of all the companies and in particular small companies that cannot afford to create their own website. ***Banks*** Disclosure standards of banks in India need further improvement, which will reflect the affairs of the bank in a true and fair manner. In addition to disclosures which are required to be made as per RBI direction, banks should on their own disclose all material information relating to the true state of their affairs, their vision statements, future business strategies, etc. To bring more transparency, banks should disclose more information on risk management strategies and practices, transaction with affiliated and connected parties, classification of assets, off-balance items etc. In view of the diversification of activities of banks, it is essential to

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	present a fair view of the activities and the accounts of the subsidiaries of public sector banks. This would bring transparency and disclosure in the accounts of these banks at par with the private sector banks and other companies. All banks and particularly the bigger among them should have their own web-sites, where they should put all information for the benefit of the public, shareholders and depositors. The shareholding pattern, in particular the shares of institutional investors, FIIs and mutual funds and other major shareholders must be disclosed by the public sector and private sector banks.
Accounting Standards	**CODES AND PRINCIPLES** ***OECD Principles*** Information should be prepared, audited and disclosed in accordance with high standards of accounting, financial and non-financial disclosures, and audit. The principles support the development of high quality internationally recognised standards, which can serve to improve the compatibility of information between countries. ***LSE Combined Code*** Audit reporting responsibilities go beyond the actual audit and embrace any price-sensitive report or statement made to outside parties; reporting on going concerns should be a requirement and accompanied with supporting assumptions and qualifications. ***SEBI*** Companies should be required to give consolidated accounts in respect of all its subsidiaries in which they hold 51% or more of the share capital. SEBI is in dialogue with ICAI to bring about changes in the accounting standard on consolidated financial statements. In cases of companies with several businesses, it is important that financial reporting in respect of each product segment should be available to shareholders. **PROVISIONS** ***Companies / Banks / Public Sector Companies*** The Institute of Chartered Accountants of India (ICAI) has introduced segmental accounting standards. It has released exposure draft on consolidated accounts by companies. **ISSUES/RECOMMENDATIONS** ***Companies / Banks / Public Sector Companies*** Banks and companies should be required to prepare and present consolidated financial statements including those of all its subsidiaries. There should be reasonably good disclosures about related entities where the parent is having 26% or more shareholding. They should also be required to prepare and present desegregated segmental information for each significant product or service segment (i.e. industry segment) and for each significant geographical market. They should provide reconciliation between the sum of the information on individual segments and the aggregated information in the financial

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	statements. With regard to related party transactions, they should prepare and present disclosure of related party relationships, whether or not there have been transactions between the related parties. They should also disclose the nature of relationship, type of transactions, and their elements necessary for understanding of financial statements. Companies should prepare and present the aggregate amount and period of defaults on repayment obligations on, loans, bonds, debentures and public deposits.
Internal Control	**CODES AND PRINCIPLES** ***OECD Principles*** A key responsibility of the board is to ensure that appropriate systems of control are in place, in particular systems for monitoring risk, financial control, and compliance with the law. ***LSE Combined Code*** An annual review of the effectiveness of the company's internal controls over financial, operational and compliance matters should be conducted and reported to shareholders. **BIS** In banks there should be strong internal control systems, including internal and external audit functions, risk management functions independent of business lines, and other checks and balances. ***SEBI*** Audit Committee of the board to look into these aspects. **CURRENT PROVISIONS** ***Companies*** The board of directors and shareholders oversee and monitor the management. This monitoring takes place through oversight of the audits and the company's accounts, which must reflect the true and fair view of the company's affairs. Directors can inspect these books together with the Registrar and government officials. Shareholders exercise the oversight function by appointing and removing independent auditors through a special resolution at the AGM. ***Banks*** Banks have reasonably good internal control systems; internal and external audit functions are the other checks and balances. A regulatory framework for risk management function in banks independent of business lines has recently been put in place. Banks are in different stages of implementation of risk management systems. ***Public Sector Companies*** The Government companies, in general, are yet to put in place satisfactory internal control mechanisms. **ISSUES / RECOMMENDATIONS** ***Companies / Public Sector Companies***

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	An annual review of the effectiveness of the company's internal controls over financial, operational and compliance matters should be conducted and reported to shareholders. *Banks* With the increased complexity and volume of business, proper and effective internal control mechanism in banks should receive greater attention of the board. In banks, there should be much stronger internal control systems, including effective internal and external audit mechanisms, risk management functions independent of business lines, and other checks and balances.
Auditor Independence	**CODES AND PRINCIPLES** *OECD Principles* An independent auditor should conduct an annual audit in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented. **BIS** An important form of oversight in banks should be through independent risk management and audit functions. As the role of auditors is vital to the corporate governance process the importance of the audit process should be communicated throughout the bank. Board should take measures to enhance the independence and stature of auditors. The findings of auditors should be utilised in a timely and effective manner. Head auditor should report to the board and the audit committee in an independent manner. *LSE Combined Code* Not only should the auditors discharge their duties in total independence from personal interest or managerial interference, they should perform a regular review of their independence, along with their cost effectiveness and objectively. **CURRENT PROVISIONS** *Companies* The companies are required to have their annual accounts audited externally and signed by a certified chartered account. Shareholders have a right to appoint/remove auditor. The auditor is appointed at every AGM to hold office until next AGM.(S.224-225) *Banks* The audit functions are well developed in the banks. Appointment and removal of auditors by the boards of banks has to be with the prior approval of RBI. External statutory auditors present their report on the functioning of the bank to its board directly. *Public Sector Companies* Section 619 of the Companies Act lays down the procedure for the audit of accounts of Government companies. Sections 224 to 233 of

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	the Companies Act, which deal with appointment and remuneration of auditors, resolution for appointing/removing auditors, qualification/ disqualification of auditors, powers/duties of auditors and signing of audit report, etc., do not apply to govt. companies. The auditor of a Government company is appointed by the Central Govt. on the advice of the Comptroller and Auditor General of India (CAG), who directs the manner in which the accounts of Government companies shall be audited. The audit report is submitted to the CAG, who comments upon or supplements the auditor's report. The comments of the CAG along with the audit report are placed before the AGM of the company. **ISSUES / RECOMMENDATIONS** ***Companies*** Audit Committees should have say in the selection of auditors. Not only should the auditors discharge their duties in total independence from personal interest or managerial interference, they should perform a regular review of their independence, along with their cost effectiveness and objectively. As role of auditors is vital to the corporate governance process, the importance of the audit process should be communicated throughout the company. Board should take measures to enhance the independence and stature of auditors. The findings of auditors should be utilised in a timely and effective manner. The head of the audit firm should report to the board or the audit committee in an independent manner.
Stakeholder - Definition and Communication	**CODES AND PRINCIPLES** ***OECD Principles*** The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises. The corporate governance framework should permit performance-enhancing mechanisms for stakeholder communication. Stakeholders who participate in the corporate governance process should have access to information necessary to fulfil their responsibilities. ***LSE Combined Code*** Not covered. **CURRENT PROVISIONS** ***Companies / Banks / Public Sector Companies*** No provisions exist. **ISSUES / RECOMMENDATIONS** ***Companies / Public Sector Companies*** The board should have obligation, but not accountability to

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
	stakeholders. *Banks* In principle, the bank's board should have obligation, but not accountability to stakeholders. However, depositors being the major stakeholders in banks, whose interests may not always be recognised, sound corporate governance should consider their interests and ensure that individual banks are conducting their business in such a way as not to harm interests of depositors.
Disclosures related to Management	**CODES AND PRINCIPLES** ***OECD Principles*** Managers must disclose any material interests in transactions or matters affecting the corporation. ***LSE Combined Code*** Not covered. ***SEBI*** The annual reports of the companies should contain Management Discussions and Analysis, including discussions on matters such as industry structure and developments, opportunities and threats, segment-wise or product-wise performance, outlook, risks and concerns, internal control systems and their adequacy, operational performance and material developments in HRD, industrial relations front. (Mandatory Recommendation) The management must disclose to the board all material, financial and commercial transactions, where they have personal interest that may have a potential conflict with the interests of the company at large. (Mandatory Recommendation) **CURRENT PROVISIONS** ***Companies / Banks / Public Sector Companies*** The decision regarding what should be published in the Annual Report is taken by the boards. Generally, the management discussion is not included in the Report. As per the Companies Act Directors' interests have to be disclosed periodically at least once in a year. This is mandated to ensure that there are no conflicts of interests when the board deals with financial matters pertaining to the company. **ISSUES / RECOMMENDATIONS** ***Companies / Public Sector Companies*** Some items, like outlook, risk and concerns and internal control systems and their adequacy, should be covered in the annual report of companies. ***Banks*** Banks may also be encouraged to make disclosures on senior management structure (responsibilities, reporting lines, qualifications and experience). The basic organisational structure may also be disclosed. Broad incentive structure (remuneration policies, executive compensation, bonuses, stock options).

ISSUE	CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA / ISSUES AND RECOMMENDATIONS
Disclosure of Compliance with recommen-dations	<u>CODES AND PRINCIPLES</u> *OECD Principles* Companies are encouraged to report on how they apply relevant corporate governance principles in practice. *LSE Combined Code* The Listing Rules of the London Stock Exchange contain a requirement for UK listed companies to make a disclosure statement in two parts in their annual report. In the first part of the statement, the company will be required to report on how it applies the principles in the Combined Code. In the second part of the statement, the company will be required either to confirm that it complies with the Code provisions or where it does not - provide an explanation. *SEBI* There should be a separate section on corporate governance in the annual reports of the companies, with a detailed compliance report on corporate governance. Non-compliance of any mandatory recommendation with reasons thereof and the extent to which non-mandatory recommendations have been adopted should be specifically highlighted. (Mandatory Recommendation) Company should arrange to obtain a certificate from the auditors of the company regarding compliance of mandatory recommendations and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate should also be sent to the stock exchanges along with the annual returns filed by the company. (Mandatory Recommendation) <u>ISSUES / RECOMMENDATIONS</u> *Companies / Banks / Public Sector Companies* The extent of compliance with governance requirements should be disclosed in the Directors' Report.

8.2 Appendix 2

8.2.1 Introductory Letter[2]

University of East London

Royal Docks Business School

INTRODUCTORY LETTER

To Whomsoever Concerned,

I Raj M Jakkal, a MBA student carrying out research study for the purpose of dissertation on corporate governance in India. The principle objective of this study is to investigate problems in corporate governance practices followed within diverse organisations in India and provide solutions for it. This research is purely used for academic purpose and all the collected data will be treated with the strictest confidentiality. Your co-operation and full participation is vital for successful completion of this study.

Regards,

RAJ MADHUKAR JAKKAL

University of East London

Royal Docks Business School,

London, United Kingdom

E16 2RD

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[2] ** This introductory letter was sent to sample organisations for the clarification of purpose of interview.

8.2.2 Interview Questions

INTERVIEW QUESTIONS

DATE :
TIME :
DESIGNATION :
NAME OF THE COMPANY :

Q.1 What is the type of your organisation?

Public ☐
Private ☐
Family owned ☐

Q.2 What is the composition board of your organisation? How many male and female members are appointed on board? What is the size of board members?

Q.3 What is your role within organisation considering corporate governance?

Q.4 What is the general qualification of board members? What is your highest/ latest qualification?

Q.5 How experienced are the members of board? How much is your experience?

5-8 Years	☐	More than 15 Years	☐
10 Years	☐	More than 20 Years	☐
10-15 Years	☐	More than 30 Years	☐

Q.6 What is current salary range of executives? What is your salary range?

Below £5,000 ☐

£10,000 ☐

£15,000 ☐

£20,000 ☐

Q.7 What is current remuneration policy? Do you think it has links with performance? What are advantages and problems of it if any?

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Q.8 What kind of training programmes organisation offer? If yes then, have you attended any corporate governance development programmes? Specify if any?

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Q.9 What is the composition of audit committee? Does any external professional accounting bodies involve in the auditing process?

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Q.10 Do you think internal control and risk management policy is necessary? How does it benefit your organisation?

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Q.11 What do you think about compliance with disclosure norms in clause 49 by Securities and Exchange board of India? Do you think there are any specific issues in existing process?

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Q.12 Do you think adoption of IFRS is necessary? If yes how it will be beneficial for your organisation? If not why?

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Q.13 Why do you think corporate governance is necessary? What are the benefits of corporate governance for your organisation?

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Q.14 What are the problems in current corporate governance practices in India? According to you what are the solution for it?

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Q.15 Comment on Corporate governance practices in India.

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8.2.3 Sample Interview Transcripts

8.2.3.1 Sample One: Multinational Corporation

Interviewer: Student

Interviewee: Member of Board

Interview Setting: Interview conducted over telephone. The interview was conducted on 24th July, 2013 at 3:30 PM [BST] on Wednesday afternoon.

Affiliation with interviewee: Interviewee has worked with one of my family members.

(Start of Interview)

Interviewer: What is the type of your organisation?

Interviewee: This Company is privately owned and belongs to well-known family group in India.

Interviewer: What is the composition board of your organisation? How many male and female members are appointed on board? What is the size of board members?

Interviewee: The board consists of one executive and 10 non-executive members on board. Currently, board has all male directors on board. We are thinking towards diversification of board.

Interviewer: What is your role within organisation considering corporate governance?

Interviewee: Basically, I serve as independent director on board and perform advisory role on strategic planning and also monitor financial activities within the organisation. I also serve as director on boards of different public listed companies.

Interviewer: What is the general qualification of board members? What is your highest/ latest qualification?

Interviewee: The general qualification of board of members is Bachelor's and Master's degree. Personally, I have bachelor's degree in economics and Master's degree in Management.

Interviewer: How experienced are the members of board? How much is your experience?

Interviewee: The board members are highly experienced though I cannot give the exact years of experience of each board member. But, roughly they have more than 25 years of experience. Personally, I have 27 years of experience.

Interviewer: What is current salary range of executives? What is your salary range?

Interviewee: The directors are paid more than £15,000 annually and my current salary is £ 20,000.

Interviewer: What is current remuneration policy? Do you think it has links with performance? What are advantages and problems of it if any?

Interviewee: The remuneration policy is based on performance. The compensation includes fixed payment of sitting fees, allowances and commission. This organisation basically follow mixed compensation strategy including stock-option for directors. I strongly believe remuneration policy influence performance of directors and has certain links in offering such lucrative packages.

Interviewer: What kind of training programmes organisation offer? If yes then, have you attended any corporate governance development programmes? Specify if any?

Interviewee: The organisation strictly conducts training programmes for not only directors but also for employees to improve skills of entire workforce. Mainly, organisation conduct various learning and development programmes such as Leadership Development Programme (LDP) and Executive Development Programme (EPD). Being a responsible member I have recently undergone Leadership Development Programme.

Interviewer: What is the composition of auditi committee? Does any external professional accounting bodies involve in the auditing process?

Interviewee: The audit committee presently has maximum number of non-executive directors and for more information you can go through recent annual report. The company has appointed Ernst and Young Private Limited as internal in consultation with our statutory audit partner. We also have established ERP system to record data and connect with different locations to exchange necessary information.

Interviewer: Do you think internal control and risk management policy is necessary? How does it benefit your organisation?

Interviewee: Yes, I think organisations must establish internal control and risk management system for better functionality. ERM programmes has provided benefits towards organisation mainly of identification of risk at different levels of the organisation such as strategic, operational and financial. This internal control and risk management policy has also facilitated assessment and mitigation of risk especially at project level.

Interviewer: What do you think about disclosure norms in Clause 49 by Securities and Exchange board of India? Do you think there are any specific issues in existing process?

Interviewee: The clause 49 and SEBI's publications on corporate governance provides stringent framework with respect to rules, composition of board and audit committee, discloser norms on directors' activism and regulations of auditors, for the organisations. The Clause 49 has facilitated in creating awareness about good corporate practices and mainly, role and responsibilities of directors. I believe that the guidelines in-regards with non-independent chairman 50% independent executives on board is stringent a requirement, though it provides various benefits.

Interviewer: Do you think adoption of IFRS is necessary? If yes how it will be beneficial for your organisation? If not why?

Interviewee: I strongly believe that adoption of IFRS is necessary because, it will provide uniformity and more transparency in financial statements. It can prove to be beneficial for Indian organisation in order to improve shareholders confidence and ultimately, attract international investors.

Interviewer: Why do you think corporate governance is necessary? What are the benefits of corporate governance for your organisation?

Interviewee: Corporate governance is the necessity and current corporate governance reforms has stimulated capital flows and attracted financial suppliers for various organisations. It also contributes towards development of organisational efficiency and ultimately country's economy. The good corporate governance practices has facilitated organisation in providing decision making freedom of board members on progress and innovation. The ethical norms benefits in attracting investors and human capital domestically as well as globally. The corporate governance has also benefited establishment of relationships between shareholders and credibility to retain capital for long-term.

Interviewer: What are the problems in current corporate governance practices in India and according to you what are the solutions for it?

Interviewee: I think, the interference of political institutions is troublesome issue for many organisation. Therefore, organisation must avoid any influence of political institutions. The relationships between accounting firms and external auditors plays manipulative role in the disclosure of financial information. The dominance of majority shareholder and minority shareholders is the primary agency problem within organisations. Therefore, strict disciplining of shareholders can be the key solution of a problem. In my opinion instead of waiting for laws to change it is better to adopt and implement ethical and good corporate governance practice within the organisation.

Interviewer: Comment on Corporate governance practices in India.

Interviewee: In my opinion, Corporate Governance has seen a paradigm shift and has been posing new set of challenges on top echelons of management in various organizations including organizations from financial sector. The increasing stringencies and tighter regulatory mechanism is the compelling factor for the companies to have stronger focus and orientation on smooth

implementation of the corporate governance code in India. Therefore, clear understanding of various changing dimensions must be backed by the collective will power of the corporates.

(End of Interview) **Time: 27 Min. 36 Sec.**

8.2.3.2 Sample Two: Government Controlled Organisation (Other)

Interviewer: Student

Interviewee: Member of Board

Interview Setting: Interview conducted over Skype. The interview was conducted on 30th July, 2013 at 4:30 PM [BST] on Tuesday afternoon.

Affiliation with interviewee: Interviewee has close relationship with one of my family members.

(Start of Interview)

Interviewer: What is the type of your organisation?

Interviewee: This is a government controlled organisation.

Interviewer: What is the composition board of your organisation? How many male and female members are appointed on board? What is the size of board members?

Interviewee: There are 15 directors on board. Out of which 12 are non-executive directors and 3 are executive directors. Currently, there are 12 male and 3 female members on board.

Interviewer: What is your role within organisation considering corporate governance?

Interviewee: I participate in formulating organisational strategy and decision making policy and also involve in ensuring good standards of conduct and sustainable development of the organisation. Additionally, I am currently involved in intensive task of

identifying challenges in corporate governance structures, development and recommendations for necessary actions for the nation-wide organisations.

Interviewer: What is the general qualification of board members? What is your highest/ latest qualification?

Interviewee: The general qualification of board of members is Master's degree. But, some has double postgraduate degrees and PhDs as well. I hold PhD and professional qualification of CS.

Interviewer: How experienced are the members of board? How much is your experience?

Interviewee: The board members are highly experienced. Mostly, directors have minimum 25 years of experience. Approximately, I have around 25 plus years of experience.

Interviewer: What is current salary range of executives? What is your salary range?

Interviewee: Generally, directors are paid nearly £10,000 annually and my current salary is £ 9,000 plus incentives.

Interviewer: What is current remuneration policy? Do you think it has links with performance? What are advantages and problems of it if any?

Interviewee: The organisation strongly encourage the culture of professionalism and creative freedom. The compensation package is in line with current regulations and basically it includes base remuneration, perquisites and incentives. We strongly believe that these incentives and perquisites does encourage performance of members. I personally don't see any problems in current remuneration policy.

Interviewer: What kind of training programmes organisation offer? If yes then, have you attended any corporate governance development programmes? Specify if any?

Interviewee: The organisation has various training programmes for directors and for employees. Especially, organisation conducts Executive Development Programme and Management Skills Orientation Programme for directors. And for employees we have continuous

class-based trainings. I attended Management Skills Orientation and Executive development Programmes.

Interviewer: What is the composition of audit committee? Does any external professional accounting bodies involve in the audit process?

Interviewee: The audit committee presently has 6 of non-executive directors and M/s. Thakur Vaidyanath Aiyar & Co is the current audit partner for this year.

Interviewer: Do you think internal control and risk management policy is necessary? How does it benefit your organisation?

Interviewee: Definitely, internal control and risk management is necessary for every organisation. We have risk management and internal control system in place as this ensures risk involve that is to be understood and measured, finally monitored. This organisation strictly adhere to its established policies and procedures to address risk.

Interviewer: What do you think about disclosure norms in Clause 49 by Securities and Exchange board of India? Do you think there are any specific issues in existing process?

Interviewee: According to me Clause 49 of listing agreement facilitates satisfactory guidelines for organisations to disclose organisational information for the benefit of its shareholders and users of financial information mainly. As per new corporate governance reforms SEBI is sole observant over corporate functioning and it might prevent frauds and malpractices strictly. And arrangement of Clause 49 highly protects investors' interest and organisational behaviour. To be more specific, the weak vigilance on external audit firms can produce fraudulent financial information. The SEBI has to set the upper cap on the number of board meetings despite of other benefits such as usage of electronic means for board meetings.

Interviewer: Do you think adoption of IFRS is necessary? If yes how it will be beneficial for your organisation? If not why?

Interviewee: I strongly believe that adoption of IFRS is necessary for the

internationalised operations of the organisation as it helps in preparing consolidated statements. But, organisations may face problems in implementing IFRS due to lack of training programmes on usage of IFRS and it can impact our existing tax system. It might reduce competition due to uniform practices in the country. As Indian corporate sector is occupied by family groups the poor communication between these groups and limited knowledge transfer can result in failure of effective communication between shareholders, board members and investors.

Interviewer: Why do you think corporate governance is necessary? What are the benefits of corporate governance for your organisation?

Interviewee: I think, good corporate governance is beneficial and necessary for effective functioning of organisations as it good organisational practices invite international investments and it might help them to operate world-wide. As being involve in corporate governance policy making system we strictly practice good governance practice to set to analyse problems that may arise. The corporate governance mechanism has reduced risk and capital cost enormously. Additionally, it has ensures adequate disclosure of transparent information.

Interviewer: What are the problems in current corporate governance practices in India and according to you what are the solutions for it?

Interviewee: I think organisations mainly private companies and particularly SMEs are still hesitant to exercise separation of chairmen and CEO that have restricted corporate growth. But, the current corporate governance reforms can provide stringent controlling and directing mechanism for the organisations in India. New Companies Bill (2012) and Clause 49 of listing agreement provides efficient guidelines for good corporate governance practice to prevent frauds though the sources of frauds can't be recognised in first instance. In my opinion SEBI can resolve problems of corporate governance by periodic corporate governance audits and reviewing difficulties in both implementation and adoption level within all types of businesses.

Interviewer: Comment on Corporate governance practices in India.

Interviewee: The structural reforms of corporate governance mechanism may instigate necessary benefits for various organisations. But, Indian corporates must implement those changes as I see the organisations lacks in implementation of these changes. Corporates must adopt and implement ethical behaviour to avoid evading lucrative framework of corporate governance. I believe, there is enormous potential in Indian corporate sector. But good governing practice is necessary.

(End of Interview) **Time: 33 Min. 09 Sec.**

8.2.3.3 Sample Three: SMEs

Interviewer: Student

Interviewee: Chairman and Member of Board

Interview Setting: Interview conducted over telephone. The interview was conducted on 6th August, 2013 at 3:30 PM [BST] on Friday afternoon.

Affiliation with interviewee: Interviewee has organisation near my area of residence. Thus, interviewee is well-known to me and my family.

(Start of Interview)

Interviewer: What is the type of your organisation?

Interviewee: This is privately owned enterprise and I am the founder of this organisation.

Interviewer: What is the composition board of your organisation? How many male and female members are appointed on board? What is the size of board members?

Interviewee: The board has five executive and 6 non-executive members on board that is total of 11members. Currently, board has all male directors on board.

Interviewer: What is your role within organisation considering corporate governance?

Interviewee: As being a chairman and active member of board I involve in day to day activities of business and additionally perform appointing other members on board.

Interviewer: What is the general qualification of board members? What is your highest/ latest qualification?

Interviewee: The general qualification of board of members is Bachelor's. I am commerce graduate.

Interviewer: How experienced are the members of board? How much is your experience?

Interviewee: The board members have minimum of 5 to 10 years of experience and recently, we have appointed young professional members on board. I have 15 years of industrial experience.

Interviewer: What is current salary range of executives? What is your salary range?

Interviewee: The directors are paid within £5,000 to £10,000 annually and my current salary is around £ 20,000.

Interviewer: What is current remuneration policy? Do you think it has links with performance? What are advantages and problems of it if any?

Interviewee: The remuneration policy is strictly based on performance and remuneration package includes payments of sitting fees, reimbursement of expenses occurred for travel, for attending board/committee meetings additionally we do not retain any pecuniary relationship or transactions with non-executive directors except. Due to the accumulated losses, no commission is paid to board members during last year.

Interviewer: What kind of training programmes organisation offer? If yes then, have you attended any corporate governance development programmes? Specify if any?

Interviewee: We do conduct training sessions for directors and employees such as executive development programmes and class-room training programmes. I have not attended any development programmes.

Interviewer: What is the composition of audit committee? Does any external professional accounting bodies involve in the auditing process?

Interviewee: At present we are structuring audit committee and it will have maximum number of board members. We basically have outsourced audit function for the organisation.

Interviewer: Do you think internal control and risk management policy is necessary? How does it benefit your organisation?

Interviewee: Yes, I do believe that internal control and risk management system provides better functionality. But the establishment of ERM programmes are not cost effective as yet. We particularly rely on experience of the management within organisation. But I think we need to rethink about this strategy.

Interviewer: What do you think about disclosure norms in Clause 49 by Securities and Exchange board of India? Do you think there are any specific issues in existing process?

Interviewee: The SEBI's has published various guidelines for the function of SMEs thus it has provided with the specifying good corporate practices and role and responsibilities of directors. I believe that the guidelines are stricter in case of SMEs though discloser practice provides excellent accountability and transparency. The separation of chairman and CEO is insufficient for the inborn family cultured organisation than the professional set-ups. Considering the current business form of the organisation we need different approaches towards it and therefore, tenure of independent directors should not be defined.

Interviewer: Do you think adoption of IFRS is necessary? If yes how it will be beneficial for your organisation? If not why?

Interviewee: In my opinion, adoption of IFRS can prove to be beneficial as it will provide more accountable and transparent financial information for the benefit of shareholders. But in current situation it's not a good idea to adopt IFRS.

Interviewer: Why do you think corporate governance is necessary? What are the benefits of corporate governance for your organisation?

Interviewee: The corporate governance provides mechanism for directing and controlling organisational overall functioning. Additionally, corporate governance has established strong value driven facet such as quality, customer orientation, discipline, integrity, learning, transparency, respect and trust. It has also directed conduct of organisational undertakings with a fair-view for shareholders benefits and rights and control and prevent interest conflicts within involved parties. I personally believe that the corporate governance integrates economic and more importantly social involvement of corporates.

Interviewer: What are the problems in current corporate governance practices in India and according to you what are the solutions for it?

Interviewee: As I discussed earlier, there problems of separation of ownership. But I think it is beneficial because it can provide better organisational performance and growth. The corporate governance helps to build confidence in shareholders, attract investors and sets ground for internationalisation of the business activities. Additionally, debt restructuring mechanism can manipulate concentrated ownership in the organisation. I can see there is change in institutional investors and government policies in favour of SMEs to increase shareholders credibility and to instigate organisation's development. Therefore I do appreciate SEBI's moves towards providing better governance setup especially for SMEs.

Interviewer: Comment on Corporate governance practices in India.

Interviewee: According to me India's corporate governance has its own pros and cons. But I do believe recent changes in corporate governance framework can bring changes in current business environment.

(End of Interview) **Time: 20 Min. 52 Sec.**

8.2.4 Sample Organisations [3]

- Tata Consultancy Service
- Hindalco Industries
- ICICI Bank
- Whirlpool India Ltd.
- Larsen and Turbo
- Wipro
- Reliance Communications
- Albraco
- Great Wall Corporate Service Pvt Ltd.
- SDI Consultants Pvt Ltd
- Akin Chemical Pvt Ltd.
- Golden Tobacco Ltd.
- Fine Chemicals
- Avcon Controls Pvt Ltd.
- A B C Farms Pvt Ltd
- Confederation of Indian Industries
- The Institute of Company Secretaries of India
- The Institute of Chartered Accountants of India
- National Foundation for Corporate Governance India
- Ministry of Corporate Affairs India

[3] ** Several attempts were made in order to contact sample organisations to facilitate interviews with key management for the purpose of research study. Thus, higher level of response was expected; though, only fifteen organisations responded and thirteen organisations allowed to conduct interviews out of total number of sample organisations. Moreover, achieved level of response was considered to be sufficient for the purpose of this study.