Corporate Governance in India

A number of non governmental organizations consultancies, and research groups scrutinizing corporate business practice such as conference board, ethics resource centre, ethics officers association, transparency international, environics, controlled risks groups, etc. has grown steadily to become more sophisticated in the research and studies and in their efforts to pressure and or assist companies towards what they see as more ethical and responsible practices. The number of corporate ethics officer positions has increased dramatically in the last several years. Companies are making efforts to globalize their ethics initiatives aligning them with their core values that are meaningful to their operations spread across the countries.

The management structure of a modern corporate organization is invariably a function of its size, the quality of its governance depends on the kind of its chief executive officer (CEO). As its size increases, the enterprise cannot depend on a single executive; as its operations become increasingly complex and specialized, appropriate personnel will be required to run it efficiently. The quality of governance is influenced by the aggregate contribution of three elements the quality of organization, its CEO, and its board.

The central problem in Indian corporate governance is not the conflict between management and owners as in the US and UK. But a conflict between the dominant shareholders and minority share holders. Corporate reforms in UK and US focused on making the board independent of the CEO, who can influence the composition of the board and the gape between board and owners. Many companies have setup nomination committees, compensation committees and audit committees to solve this problem. Nomination committee helps in recruiting independent and talented member in the board and compensation committee to exercise control over CEO on his performance through compensation packages. Audit committee acts as a different deterrent against financial improprieties and frauds. Thus enables board to keep a pulse on the financial health of the company.
There are several other problems in corporate governance in India. Many companies do not appear to take their boards seriously in terms of sharing information as also in the decision making process. Such companies do not provide full and relevant information about the company to their non-executive directors just to maintain confidentiality, which is often irrational. And this results in an erring corporate management to exploit the company to its own advantage. It is often alleged that those in control of management siphon funds through various ways such as over and under valuation, respectively, of purchases and sales and or unauthorized commissions, questionable transactions with companies in which management may have direct or indirect interest, unreasonable transfer pricing, and so on. Such management often defrauds common investors through insider trading and price manipulation on the stock exchanges as well.

In India the problem of corporate governance abuses by dominant share holders arises in three large categories of companies.

1. Public sector units (PSUs) - where the government is the dominant shareholders.

2. Multinational Corporations (MNCs) - in most cases foreign parents in Indian subsidiaries is the dominant shareholders.

3. Indian Business Groups - where promoters (together with their friends and relatives) with large minority stakes are the dominant share holders.

1. **Public Sector Units**

Irrelevant role of board in PSU because the board can neither select or dismiss CEO nor can it vary his or her compensation package, or in change the composition of the board itself. And in practice, wise, experienced, really dynamic and highly competent CEOs are a scarce commodity commanding a market price. It is really difficult for companies to get quality men on company board, their real involvement and or deep interest in the affairs of a company, if they are not remunerated properly. Government takes decisions through
concerned ministry with the help of Public Enterprises Selection Board (PSEB). Board or CEO is delegated on with the power of operation decision-making, not with the power of direction. Government through concerned ministry takes all strategic decisions. As far as Audit is concern again the dominant role is that of The Controller and Auditor General of India (CAG).

2. **Multinational Corporations**

In case of private companies especially when it is a family owned business some persons have more powerful control even though their shareholding is insignificant in relation to the other shareholders. And the true sprit of corporate democracy is fettered. Problem are faced incase of transfer of ownership of shares and purchase of shares when people have selfish motives in doing so, and management is intolerant of any differences of opinion in the running of the company, and gives cause to complain of oppression to minority shareholders even if holding relatively small proportion of stock.

In 1990’s the government liberalize the law, allowing foreign ownership 51%-74% or even 100% in several cases (like high technology areas). With this permission for higher ownership MNCs raised their stake by their Indian subsidiary at deep discount prices in comparison to their market prices. In some cases shares were issued to Parent Company at less then tenth of the market price. It is all with the consent of majority shareholders, resulted in heavy loss to minority shareholders. Another example of corporate governance problem is that in case where company has it two subsidiaries in India, in one holding greater stake than in the other. By structuring their business in that manner MNCs parent company transfers most profitable brand and business to the other subsidiary where they have higher stake at artificially low price. This implies a large loss to the minority shareholders.

Another issue concerning high royalties demanded by foreign companies from the Indian subsidiaries for using parent company’s brand name, even tough Indian company had assiduously cultivated the reputation through decades of
advertising paid for in part by the minority shareholders and whose principal market was India.

3. **Indian Business Groups**

Here promoter shareholders with their friends and relatives dominate the company’s decisions. And there is no regulatory control over such aggregate holding by the government. In case where some State owned financial institution is the promoter, were widely seen as acting as the behest of their political masters and not in the pursuance of their own financial interest. Promoters easily get general body approval for all their actions over several decades the command economy. There are many financially sick companies in India but no financially sick promoters.

A large parallel black economy has developed in India where transactions are carried out in cash and are not recorded in the books of account. Many Indian business groups have succumbed to the lure of black money. Unrecorded profits and unrecorded loss is also cheating the minority shareholders.

Another important corporate governance issue is that of merger and restructuring of companies in the same group. Promoters secretly built up large positions by acquiring share of the company they favor. (or the company which has merged with basic company, where they have large holding).

There is a growing trend of institutional investors (PFI, FFI, public and foreign financial institutions) in capital markets all over the world. IDBI (Industrial Development Bank of India) through its underwriting commitments and direct subscription activities take a long term view and hold on to the equity until the assisted projects funded by them, become profitable and their equity starts getting quoted at a premium in the market.

LIC (Life Insurance Corporation) invests nearly its one fourth of life funds in profitable avenues available through the market and in private sectors equities. Several mutual funds have also been set up by public sectors commercial banks and private sectors groups. All these mutual funds have been investing the bulk
of their mobilized resources in equities of private sector companies. The promoters, (holdings even below these institutional holdings) do not allow other shareholders including these institutions interfering in the management of companies affairs. The company is often considered the property of the family or controlling management.

Cooperatives-movement has strong foothold in Maharashtra, e.g. agro-based industries sugar mills, cotton spinning mills, and fertilizers are another forms of organizations, where state government have high level of interference in their management. And despite of large shareholding state government have been ineffective in ensuring efficient administration of these units, because state government is completely under the control of the party in power. Therefore co-operative units have been entangled with state politics has not gain popularity despite several concession granted to this form of organization.

The Regulatory Dilemma

Regulators face a number of difficulties in tackling the problem of corporate governance abuses by the dominant shareholders. It is often difficult to decide how for the regulator should go in interfering with the normal course of corporate functioning. Some of these problems are highlighted below:

Share holder Democracy: Some of the most glaring abuses of corporate governance in India have been defended on the principle of ‘share holder democracy’, since they have been sanctioned by resolution of general body of share holders. Board meetings remain a medium of discussing routine affairs to pass certain resolutions required by law, if board members do not raise serious questions concerning the functioning of company, or its investment plans. It is a serious problem when institutional nominees’ presence is just tolerable in company. The board is some time powerless to pre-empt abuses and powerless in disciplining the dominant shareholders from whom it derives all its power. In many ways the term ‘share holder democracy’ represents a misguided analogy between political governance and corporate governance. Corporate governance provides the framework within which contract about the relationship between
company and its shareholders, operates. Different shares carry different rights like primary rights, (ownership rights to profit and assets) and secondary rights. (Voting right to appoint directors to the board) The term ‘shareholder democracy’ focuses on this secondary group of shareholders’ rights. Corporate governance ought to be concerned more about ownership rights. It is little consolation to have their secondary or control rights protected and respected if there ownership rights are allowed to be trampled upon.

The Dilemma of Micro Management: Regulatory interventions often imply a micro-management of routine business decisions. In competitive world highly complex decisions have to be taken quickly and smoothly and the board prohibitions may stand in the way of many legitimate business transactions. Regulatory review of decisions would be in consistent with a free market economy. There should be a minimal exercise of regulatory discretion.

Regulatory Response:

The Corporate Governance Code proposed by the Confederation of Indian Industry (CII) is modeled on the lines of the Cadbury committee. The Cadbury committee was set up in 1980’s by the London Stock Exchange to address the financial aspect of corporate governance. (See Appendix VII) This committee developed a list of obligations responsibilities and standards to which companies should aspire. In India the first, formal regulatory framework for listed companies was established by SEBI (securities and exchange board of India) in Feb 2000. All the listed companies in India are required to follow stringent guidelines prescribed by SEBI. SEBI appointed Kumar Mangalam Birla Committee on May 7, 1999. It was a nineteen-member committee based on the guidelines enunciated.

On Aug 21, 2002 the DOC (Department of company affairs) under the ministry of finance and company affairs appointed Naresh Chandra Committee (See Appendix X) to examine issues pertaining to corporate governance. Two aspects are touched (1) Financial and non-financial disclosures, (2) Independent auditing and board oversight of management. It also looks into measures so that
management and auditors present ‘true and fair’ statement of financial affairs of a company, light of section 302 of the Sarbanes Oxley Act, whether it is necessary to introduce measures such as CEO and CFO certification. The committee wanted to improve regulatory oversight without diminishing managerial initiative and risk taking. And SEBI constituted a committee on Aug 21, 2002 by the DOC under the chairmanship of Shree N.R. Narayana Murthy. This committee comprise of 23 persons including representatives from the stock exchange, chamber of commerce and industry, investors association and professional bodies.

Two reports given by this committee has almost the same ground as Kumar Mangalam Birla Committee gave. SEBI (securities and exchange board of India) and DOC (department of company affairs) hasten the process of improving corporate governance through extensive regulatory process. The DOC (See Appendix IX) has amended company's act by introducing several clauses concerning corporate governance. OECD (organization for economic cooperation and development) has also prepared general policies for multinational enterprise. It includes economic social and environmental progress and human right issues.

A. Company Law:

i) Protection of Minority Shareholders: Companies legislation itself provides primary protection to minority shareholders. Company law provides that the aggrieved shareholder is given opportunity to approach the court to windup the company by showing the evidence to wind it up. And also given the right to him that to receive his share of asset of the company. In reality there is hardly a meaningful remedy as breakup value of company is lesser than its going concern value. He can also approach the Company Law Board (Company Law Tribunal) instead of approaching court. Tribune normally entertains when a group of shareholders forms hundred in numbers or ten percent of the total shareholders.
ii) Special Majority: In certain major decision company is required to get it approved by 75%-90% of the shareholders. Again if the dominant shareholder has this large percentage he can dominate. Indian system does not allow for postal ballots if minority shareholder does not attend the meeting.

iii) Information Disclosure and Audit: Company law prescribes that regular accounting and other information to be provided to the shareholder along with a report by the auditors. Disclosure is also necessary.

B. Securities Law

In India SEBI (See Appendix VIII) was setup as a statutory authority in 1992, and has taken a number of initiatives in the area of investor’s protection, especially in case of large listed companies.

i) Information Disclosure: SEBI has added substantially to the standards of information disclosure prescribed by company law in prospectus and in annual account. Information on the performance of other companies in the same group (which have accessed the capital market in the recent past) must be given to the investors so that they can judge the past conduct of the dominant share holders.

ii) Promoters’ Contribution and Lock-in: In SEBI regulations in case of most public issue the promoters are required to take a minimum stake about 20% in the capital market economy, and to retain these share for a minimum lock-in period of about three years. It provides exemptions to the companies have not dominant shareholders.

iii) Pricing of Preferential Allotments: In 1994 SEBI in its guideline, prohibited preferential allotment to dominant shareholder at a price lower than the average market price during the preceding six months.

iv) Insider Trading: In instances, directors and senior employees may indulge in some insider trading when they come to know about price sensitive information. Dominant shareholders through numerous friends, relatives and other intermediaries indulge in insider trading to merge with small companies in
which they have a large stake and it become very difficult to prove the theft of such unscrupulous promoters.

v) **Take Over**: The take over regulations India require that all the privileges of the controller block must be shared with other shareholders. The acquirers of the controlling block of shares must make a open offer to the public for at least 20% of the issued share capital of target company at a price not below what was paid for the controlling block.

**Resolution in Indian Corporate Governance**

The past few years have witnessed a silent revolution in Indian corporate governance where management has woken up to the power of minority shareholders who vote with their wallets. In response to this power, the more progressive companies are voluntarily accepting tougher accounting standards and more stringent disclosure norms than are mandated by law. They are also adapting more healthy governance practices.

The problem of corporate governance abuses by the dominant shareholder can be solved only by forces outside the company itself- two such forces been the regulator (the company law administration as well as the security regulator) and the capital market.

The key to better corporate governance in India today lies in a more efficient and vibrant capital market. The capital market has the ability to make business judgments and to distinguish between what is in the best interest of the company as a whole as against what is nearly in the best interest of the dominant shareholder. The market can impose sanction against an offender and restrict his ability to raise money from the market. Denial of market of access is a very powerful sanction except where the company is cash rich and has little future needs for funds. Following factors makes the capital markets more effective in disciplining the dominant shareholder:
**Deregulation:** Economic reforms have not only increased growth prospects, but they have also made market more competitive. This means that in order to survive companies will need to invest continuously on large scale.

- **Disintermediation:** Financial sector reforms have made it imperative for firms to rely on capital markets to a greater degree for their needs of additional capital.

- **Institutionalization:** The increasing in institutionalization of the capital markets has tremendously enhanced the disciplining power of the market.

- **Globalization:** Globalization of financial markets has exposed issuers, investors and intermediaries to the higher standards of disclosure and corporate governance that prevail in more developed capital markets.

- **Tax Reforms:** Tax reforms coupled with deregulations and competition have tilted the balance away from black money transactions. This makes the worst forms of mis-governance less attractive than in the past.

Though regulator is forced to confine himself to broad proscriptions which have little room for discretionary action, and many corporate governance problems are ill-suited to this style of regulation. There is plenty that the government and the regulators can do to enhance the ability to improve their contributions towards better corporate governance in their companies.

- Disclosure of information is the prerequisite of the minority shareholders or for the capital market to act against errant managements. The regulator can enhance the scope, frequency, quality and reliability of the information that is disclosed. The information that companies should share with their non-executive directors include comprehensive monthly performance reviews, annual or monthly operating plans, long range plans relating to capital expenditure, manpower, product composition, future expansions and diversifications, and so on. It is particularly important to share with the directors all essential details of product cost structure, observed deficiencies, labour relations, internal audit reports, external relationships
especially with the bankers and term lending institutions, potential and ongoing disputes with tax authorities and other public agencies, and so on. Such information disclosure needs to be given to directors at their board meetings. The minutes of board meetings should record such discussions. Such transparency helps the directors in taking informed decisions and offering fact-based counsel.

- Regulatory measures that promote an efficient market for corporate control would create an effective threat to some classes of dominant shareholders.
- Reforms in Bankruptcy and related laws would bring the disciplining power of the depository holders to bear upon recalcitrant managements.
- Large blocks of share in corporate India are held by public sector financial institutions have proved to be passive spectators. These shareholdings could be transferred to other investors who could exercise more effective discipline on the company management. Alternatively these institutions could be restructured and privatized to make them more vigilant guardians of the wealth they have controlled.

It is evident that these tendencies would be strengthened by a variety of forces that are acting today and would become stronger in years to come. Over a period of time, it is possible that Indian corporate structures may approach the Anglo-American pattern of near complete separation of management and ownership. At that stage, India too would have to grapple its governance issues like empowerment of the board.

As Company law prescribes that regular accounting and other information to be provided to the shareholder along with a report by the auditors And disclosure is necessary, further is given the detailed discussion on ethical auditing and social reporting that brings transparency in corporate governance.

In India, companies like Tata Group, Infosys, Wipro have overtime evolved sound system of governance, intertwining corporate governance with social responsibility. These companies have become global and so it is common to find
global norms of accounting and disclosure being followed in these corporate houses. Rights of employees, stock options, independent directors, creation of value chains, meeting expectations of quality, price, warranty and guarantee all these have made room for quality governance. The Sachar Committee (1978) appreciated that some enlightened business houses are contributing to solve problems of rural development, environment protection, and control of pollution and provision of clear water. They are recognizing social responsibility as development of corporate ethics. Sachar Committee looked into the social responsibilities of the companies. It suggested that social cost benefit analysis, one of the prime considerations for investment decisions in the public sector, ought to be taken into account in the matter of investment in private sector also. It remarked the accountability of the public sector to the people through parliament must find its parallel in the private sector in the form of social accountability, at least to extent of informing the public about the extent and the manner in which it has or has not been able to discharge its social obligation in the course of its own economic operations. The relevant suggestions of the committee are as follows:

1. Majority of population of the country lives in rural areas and its wellbeing is essential. And a company that consciously and with deliberate choice establishes its business in such areas will certainly beheld to have played more socially responsibly role even though in terms of its return on investment it is less profitable than other companies.

2. Social responsiveness may also be judged from the policy of employment followed by a company so far as the socially handicapped and weaker sections of the community are concerned.

3. The test for judging a company’s consciousness towards the interests of public may include: the interest it takes in the area of its operation, the welfare of its employees, the spread of adult literacy and so on.

4. It should be obligatory on a company to give a social report every year showing to what extent it has been able to meet its social obligations.
5. While quantifying the contribution that a company claims to have, made towards social obligations, the social report should specify that no part of the benefits from contribution made by the company have gone either to the directors or their relatives or to any association in which the director’s or their relatives have any personal interest.

6. The companies Act should be suitably amended requiring every company to give along with the director’s report, a social report that will indicate and quantify, the various activities relating to social responsibilities carried out by a company in the previous years.
Social Reports and Social Audits

Social responsibility raises the question of how social performance ought to be evaluated. This lead to the concept of ‘Social Audit’, first proposed in 1990s by Howard Bowen. It is one of the recommendations of Cadbury committee (See Appendix VII) on corporate governance, according to it audit committee have been a requirement to be compiled with by companies listed on the New York Stock Exchange since July 1978. In 1980s there was a significant development in India that the TISCO invited a team of eminent persons to undertake a ‘Social Audit’ of their organizations and published the findings in the form of a report.

The financial institutions in India require, by a condition in their loan covenants, constitution of such audit committees by all relatively large sized corporate borrowers. Audit committees are time tested valuable mechanisms as they involve periodic reviews of performance, operations, internal and external audit findings, and such other matters, by directors who are not directly involved in the day to day affairs of the company. Such appraisals by non-executive directors of the company are a source of very useful inputs to the full time directors who may not always be able to objectively evaluate their own performance or identify appropriate corrective actions. In this way audit committee or Ethical auditing is a powerful technique helpful in bringing transparency and objectivity in board deliberations and has become more frequently used in recent years.

The best-known example of its use in the UK is THE BODY SHOP, which makes available detailed audit report to general public. Along with these reports, which are largely produced by independent external auditors, they include an explanation of their philosophy and methodology of audit. This is a company, which is ‘Values driven’ in a way that very few commercial organizations can claim. It has much in common with voluntary organizations in that its formation was the consequence of a set of belief (whereas most companies attempt to articulate some beliefs of values after many years of operations). Because it is founded on very explicit values, THE BODY SHOP audit process can be carried out with a clear sense of purpose and determination to act on findings.
Many large enterprises in India have emphasized their social responsibility in their annual reports, e.g., TISCO, ITC, SAIL, BHEL, ONGC etc. have developed neighborhood projects. These corporations are now doing social audit i.e., presenting additional objectives and comprehensive information about organization’s social performance, which reflect social responsibilities.

It is noteworthy that an estimated Rs. 400 Crore is spent per annum by corporate organizations on Philanthropy in India. Corporate social reporting is the information with respect to discharge of social responsibilities of corporate entity. How the business discharges its social responsibilities is disclosed through social report. It is separate and broader than the legal obligations to be fulfilled by the organizations. The content of corporate social report is essentially based on social objectives of the company. Social objectives are determined by socio-economic condition of a country. It is difficult to set universal list of social objectives to be pursued by corporate sector. This report clearly reflects the positive contribution of the business to socio-economic problems.

In India regional imbalance, unemployment, reservations for weaker sections of the population, scarcity of foreign exchange, energy deficit, population pressure and illiteracy are some of the widely accepted social-economic problems. Reports also indicates how much is been incurred in organizational activities of example pay, allowances, perks, incentive, recruitment, training and development, placement, promotion and transfer, welfare measures, in all on the people of the organization. And how much is been incurred on general philanthropy in cultural and social welfare programs and contribution to tax and duties. How much the company is spending on environmental protection? It also covers the qualitative aspects, like guarantee, redressal of customers’ grievance, honest exposure in advertisement etc. We can say, social report includes company’s contribution to social benefits to the staff, to the community and to the general public.

In a study of Fortune 500 industrial companies it is found that social reports covers Environmental Controls (See Appendix VI), Minority Employment,
Responsibility to personnel, Community activities and Product improvement. In India, TISCO published a social report in 1979-80 and some leading public sector undertakings; namely, NTPC, Cement Corporation of India, Madras Refineries Ltd, MMTC and ONGC published social balance sheets. However general response towards corporate social reporting is not significance in India. In most cases the Director’s report touches, the points of social report. (Exhibit-7.1)

Some areas covered in social audit are i.e.

a. Social benefits to the staff- various facilities etc.

b. Social benefits to the community- local taxes paid to panchayat, municipality, environmental improvements, and generation of job potential.

c. Social benefits to the public- taxes paid and follow the duties towards governments.

**Standard format of Social Accounting used by some Public Sector Undertakings in India**

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization Equity (balancing figure)</td>
<td>Social Capital Investment</td>
<td>Township Land</td>
</tr>
<tr>
<td>Social Equity</td>
<td>Township Land</td>
<td>Township Land</td>
</tr>
<tr>
<td>Contribution by Staff (evaluated as per Human Resources Statement)</td>
<td>Township Land</td>
<td>Township Land</td>
</tr>
<tr>
<td></td>
<td>Canteen Buildings</td>
<td>Township Water Supply</td>
</tr>
<tr>
<td></td>
<td>Township Roads</td>
<td>and Sewerage</td>
</tr>
<tr>
<td></td>
<td>Township Electrification</td>
<td>Other Social Assets</td>
</tr>
<tr>
<td></td>
<td>Hospital Equipment</td>
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<tr>
<td></td>
<td>Club Equipment</td>
<td></td>
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<tr>
<td></td>
<td>Play Ground/Parks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>School Buses</td>
<td>Human Assets</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>(evaluated as per Human Resources Statement)</td>
</tr>
</tbody>
</table>

Exhibit-7.1
Social audit has been defined as the commitment to systematic assessment of and reporting in some meaningful, definable domain of company’s activities that has social impact. One may distinguish between two types of audits; one is required by government and involves for example pollution control, product performance requirements and equal employment standards. The kind of social audit concerns a great variety of voluntary social programs.

Before launching on an audit exercise there are many points to consider carefully. Seven are listed and discussed briefly here:

I. **Purpose** – The purpose of the organization must be clearly defined. Audit can be conducted in order to obtain information, which will help in steering the ethical development of the organization so that organization can meet the demands of all its stakeholders.

II. **Types and Topics** – It must be clarified that what topics to be included in auditing. Followings are some of the options along with which auditing can be done.

   III. Audit of policies and procedures (existence)

   IV. Audit of policies and procedures (compliance)

   V. Audit of actual performance (external impact)

   VI. Audit of staff perceptions

   VII. Audit of staff aspirations and concerns

   VIII. Audit of customer and other stakeholder perception.

   IX. Audit of customer and other stakeholder aspirations/concern

   X. Audit of legislative or regulatory compliance

   XI. Audit comparison with reference scales, pears or benchmarks

We can say auditing can be done to explore in-depth the values of organizations peoples relative to all their major category of stakeholder or it can be done to know the attitudes towards corporate environmental impact.
XII. **Context** - In what managerial context auditing is been carried out and commitment of the top management and pressure point must be clearly explained.

XIII. **Process** – Processes like paper based processes (questionnaires) or other techniques (interviews) should be clearly defined in order to assess the ethical performance of the organization.

XIV. **People** – People involved in the process of ethical auditing should have necessary experience.

XV. **Analysis and Reporting** – Help of outside agency can be taken or it can be prepared by the organization itself.

XVI. **Follow up** – There must be clear-cut outline plans, which are open to discussion and further correction.

As good corporate governance enhances the image and brand value and affects brand equity and consumer purchasing behavior, many private investors are now seeking guidance through organizations such as the Association for Sustainable and Responsible Investment in Asia (ASRIA), and its international counterparts, in order to make informed decisions about social responsibility investment (SRI). Within the SRI framework companies are measured according to their adherence to triple bottom line principal, i.e., taking into account social and environmental consideration in addition to the standard financial issues.

- Reduction of potential liabilities.
- Improved resource management.
- Increased market research: this can be achieved through differentiation of products/services from competitors using good corporate governance practices as a tool.
• Effective stakeholder relations management: Corporate governance is a community issue. It is the responsibility of everyone to conduct himself in an ethical and responsible manner.

• Increased Profitability: as a direct result of the aforementioned benefits, good corporate governance will result in bottom-line improvement.

We can conclude that accountability and constituent responsibilities of board of directors to shareholders, adherence to rules and regulations, transparency in corporate functioning, and a system to review the performance are the basic ingredients for good governance. There are two mechanisms of corporate governance internal and external. The above discussion in this chapter is all about external corporate mechanism, where company relies on market, quality products, adherence to rules and legislation to achieve competitive advantage. Here company takes into account the interests of its stakeholders to gain competitiveness. This is in line with the concept of stakeholders of the society. Internal corporate governance mechanism relies on sound managerial performance and this system consists of board of directors. It is now being realized that legislation alone cannot ensure ethical conduct. The spirit of self-regulation or voluntary administration of ethics or internal governance invoked by codes is much more important than law.

The studies of government practices across several countries, conducted by Asian Development Bank, IMF, World Bank point out the fact, that there is no single model of corporate governance. And it is difficult to achieve Good governance in its totality. Indian classics on polity suggest that success of good governance depends upon the quality of the human resource at all levels. Therefore, preference should be given to the courageous, knowledgeable, strong-willed man with a high emotional quotient while selecting and recruiting ministers and officials or board of directors. It becomes imperative to evolve a policy, which would attract better quality of persons – man and women of character and competence to public service and enable them to assume corporate
responsibility and leadership roles at various levels. This is a stupendous responsibility and calls for education in the values and responsibility of good and responsive governance.

It is unfortunate that none of the committees has spelled out as what should be done to bring about the ethical dimensions in the functioning of companies to enthuse, corporate governance. Narayanmurthy Committee has emphasized the need of ethical standards in corporate governance in its report. According to committee lack of ethics is the main problem in India today. But it has not indicated in the report how there can be a fusion of ethics and management in corporate governance. The framework for ethics is more comprehensive then being just legal. But what is being witnessed is continuous race for bringing out regulations after regulations and the two bodies namely, DOC and SEBI who have taken over the task of improving governance in corporations are pursuing fragmented divergent approaches. The result is that they have no coordination with each other.

The need of the time is to, besides law and rule, take measures which may inculcate confidence, faith and simplicity, self respect, relativity, devotion towards work and organization, economy in working, sacrifices of the overall good, integrity, humility, absence of self ego, involvement in work but with a sense of detachment, team work, concern, care and mutual trust, motivation, taking and sharing of responsibility, accountability and various other such traits. Unless an atmosphere is generated to make the governing team enthusiastic and make them aspire for excellence, merely trying to ensure efficient corporate governance by amending the company’s act and re-revising it again and again all going to be hallow and ineffective exercise. Existence of regulations does not necessarily mean that they are enforced. Procedural refinements and innovations are no substitute for “good” man while good men are never short of the capacity to innovate. It is man not the measures, as the ancient Indian political thinkers believed that make the common wealth shine forth.