Corporations are no longer sheer economic entities. These are instruments of national economics and social transformation. Corporates are powerhouses that generate employment, provide education and health care and give sustenance to the society. Good corporate governance is a source of competitive advantage and critical to economic and social performance. It also benefits everyone. It ensures sustained and shared growth – sustained in that it withstands economic shock and shared in that it delivers benefit to all in the society. Poverty persists because benefits of growth are distributed unevenly. Sound corporate governance is important not only to attract foreign capital but also to tap domestic capital by broadening and deepening the local capital markets.

Corporate collapses and corporate frauds have once again brought into sharp focus, the crucial importance of corporate governance in creation of wealth. Rarely has there been an issue so vital to the long-term corporate survival as the accountability and effectiveness of Corporate Boards. The world has lost hundreds of billion of dollars during the past 12 months through corporate collapses owing to poor corporate governance practices. There has never been a better time to focus on the crucial issue of maximizing effectiveness of company boards.

Series of accounting scandals, economic recessions and integrity issues have raised the risks as never before. The last decade of the 1990s proved to be one of the most challenging, dynamic periods ever experienced. While a spate of corporate scandals rocked corporate America and had Wall Street in a tizzy, its impact was felt on financial markets across the globe. Though India Inc. has so far not witnessed that kind of corporate crises; it can learn important lessons from such happenings.

Enron provided the biggest example of corporate malfeasance, but it has marched at the head of a long parade of business misdeeds. The message is clear: Capitalism is a complicated enterprise, and the system won't work without referees.

Governance, which says that shareholders should get most benefits and does not care about employees who dedicate their lives for the corporation, is not governance but corporate greed. Company boards are facing increasing scrutiny
from customers, employees and civil societies. The Centrality of Corporate Governance lies in its emphasis on transparency. It is far easier to say but most difficult to implement.

A series of changes in regulations have considerably altered the way businesses are carried out. Naresh Chandra Committee has commented that in India, companies need to follow very stringent guidelines on corporate governance and that sadly there is a wide gap between prescription and practice and the Committee pinpointed the adverse legal consequences because of which the defaulters almost always get away due to the web of inefficiency, corruption and the intricate dilatory legal system. Thus, while corporate governance reforms in India far outstrip that of many other countries, the performance in this regard lags very much behind.

Corporate transparency has always been an issue in India. Fake projects, fund siphoning, asset stripping, figure jugglery, stock rigging, cross-holdings are all the issues behind the corporate scams. Indian investors have to realize that the pressure to sell a company’s growth story, the cause of Enron’s fall, is as much a reality in India as in the US. It is the spirit of corporate behaviour that is in question. All the companies are acting perfectly in accordance with the law and official accounting standards. Although no WorldCom has happened in India yet, companies are not above playing number games.

Sarbanes-Oxley Act brought with it fundamental changes in virtually every area of corporate governance, raised the standards of financial reporting by forcing companies to provide more information than earlier and on the whole demanded more transparency from companies. The profession in India has responded to the recent developments in a positive manner. The perceived possibility of corporate failures in the context of United States experience, made the Government, regulators and the accounting profession in India revisit the entire gamut of corporate governance mechanism, and company-auditor relationship. The profession looked on the developments as an opportunity for enhancing its role as valued trustee of stakeholders, and to bridge up the gap that currently exists between the corporate responsibility and the public accountability.
Standards of good Governance have been evolved in Indian Companies through the spread of the regulations in the recent past. However effectiveness of corporate governance system cannot be merely legislated by law. Neither can any system of corporate governance be static. As competition increases, technology pronounces the death of distance, speeds up communication; the environment in which firms operate in India also changes. In this dynamic environment the systems of corporate governance also need to evolve.

SUMMARY OF FINDINGS

The recommendations of the Birla Committee and the new clause 49 of listing agreement resulted in a new phase of reforms in the Indian Corporate Sector. In this research study an attempt was made to study the governance practices of selected sample 100 companies for the financial year 2k1. Attention is drawn to the related issues of implementation of Birla Committee Recommendation.

Statutory and Mandatory requirements such as report on corporate governance, compliance certificate, directors responsibility statement have been 100% adhered by all the companies. This states the fact that anything that is compelled or enforced through law is always adhered to. But corporate governance not only speaks about rules of Business Conduct but also the qualities, attitudes and ethics of corporate leaders. These are the issues that are difficult to check and ensure adherence.

Composition of board of directors with regarding NED and independent directors was complied with by 80% of the companies. Here again the word 'Independence' is subjective in nature. Moreover some companies resorted to reappointments of their existing Executive Directors as Non-executive Directors. Some executive chairmen left their executive positions and have been re-nominated as non-executive chairmen for the next term to satisfy the desirable code.

The Mandatory Governance Committees such as audit committees, shareholders grievance committees, have been constituted by 96% of the companies, but active functioning of these committees with structured agenda and quorum is yet to begin in 56% of the companies.
82% of the companies have given the mandatory disclosures in their annual reports. This is one area where the corporate sector has improved and provided qualitative and voluminous information to the investors. The companies never provided this sort of information regarding board function earlier to investors. Thus the disclosure practices has improved commendably. However as is normal, non-mandatory requirements have not gained much of prominence.

There were very many notable committees, which have prescribed norms for Ideal Board Composition and functioning. Anything that has positive effect on financial performance and profits, motivates and attracts more corporate leaders to adapt it. So an attempt is made to measure and rate the corporate governance practices of sample companies to test the hypothesis whether better governed companies were performing better in the peer group. Each company has been rated based on an assessment of corporate compliance with statutory rules and regulations. The financial performance of the sample companies was measured Vis-a-vis ROE, ROTA, EVA, Market Prices and Dividend Yield. The three years average performance was computed and used for the purpose of analysis.

The significant correlation between corporate governance rate and EVA, ROE, ROTA and Market Prices proves the hypothesis statistically and establishes the positive relationship between firm performance and governance practices. This sort of association and finding should encourage and enthuse more and more corporates to give attention to the governance issues. The Goodwill and reputation enjoyed already by the better-governed companies such as Infosys is already have been provoking keen attention and interest among the peer group in this respect.

Further it is found that the companies with high corporate governance rate establish the significant relationship between performance and the governance practices. Highly rated companies also happen to be high achievers. Further highly rated companies also established the fact that they enjoy better overall organizational effectiveness.

The Ideal norms suggest that there should be formal list of responsibilities for the Board Members and the Chairman should improve interaction with the non Executive Directors. However the empirical evidence shows that there is no such formal list of responsibilities existing in Indian Context and it is also uncommon for
the Chairman to interact with Non Executive Directors. Similarly boards replacement
is not common inferring that the boards of many companies operate as permanent
bodies and directors were not subject to evaluation. Further there is no specific
tenure for Non Executive Directors.

Regarding the Board Meetings, Agenda and Notice are circulated more than
seven days in advance. But the required notes in many of the companies reach the
directors only one or two days before the meeting. Board Meetings are convened
once in three months, and are convened for duration of 2 to 3 hrs. Directors spend 2
or 3hrs as preparation time.

Regarding Audit committee meetings, internal auditor in many companies
directed agenda and functioning. External auditor participates in Audit committee
meetings and interacts with the committee members.

Either chief financial officer or chief executive officer appointed statutory auditor.
Most of the corporate directors and company secretaries opted for rotation of Audit
Firms once in 4 or 5 years.

The Desirable practices about board members suggested that the age limit for
the directors to be 35-65. It is also suggested that a person can be a director in a
maximum of 10 companies. There should be separate chairman apart from MD

The feedback on Birla committee and clause 49 asserts that it was a good
beginning to institute a good system of corporate Governance but further research and
changes are required. Further a period of 3 yrs is required to effectively adopt all the
rules of clause 49 of listing agreement. Clause 49 will not be adopted successfully
without serious penalty measures. Independent corporate Governance rating is required
as a disciplining mechanism.

Executives expressed that the Board size influences the performance of the
company. The system of corporate Governance in a Company influences its financial
performance. Corporate Governance is assessable through the financial parameters
and ratios like EVA, ROE, Market Prices, EPS etc.
SUGGESTIONS

In an economy with developing capital markets, there is huge potential for the segment of small investors. Majority of these investors are either not much educated or not well aware of the market functioning. They come forward and participate if they are provided with a Godfather who can ensure and protect their interests. In this respect SEBI is providing the protective role and introduced many reforms and rules. What is more essential is skillful execution of all these ideal rules. Follow up action from SEBI and stock exchanges is very vital in this context. They should be adequately equipped with the required administrative set up to continuously

- Pinpoint defaulters
- Award the whistle blowers

through press publications.

Investors education is another essential step for ensuring implementation of the Governance Reforms. Professional institutes like ICAI & ICSI can provide valuable service in this area by organising public forums and meetings.

SEBI can form a panel of independent, competent and efficient professionals and administrators for the companies to draw and choose Independent Directors to their boards. The word independence starts diluting if the person is elected to the board at the choice of the existing executive board members or there should be at least be one independent director nominated by SEBI on every board of the listed company.

There should be one more board committee - "Ethics committee" to check and ensure that the policy decisions of their boards are ethical in nature considering the interests of all the stakeholders.

SCOPE FOR FURTHER RESEARCH

The present study established that the companies have restructured their boards and revised their composition after the introduction of the clause 49. It is essential to observe how far restructured boards function and contribute to firm's performance.
The companies also further formed the required governance committees as per the requirements. These committees are yet to start functioning in an effective way. The quality of their functioning and their effect on firm's performance can be checked.

Further all the revised accounting standards, reforms and amended legislations, newly introduced secretarial standards, are all giving long list of rules for the finance professionals. The suggested model code of conduct provides a big challenging task for them to accomplish and meet all the demands of their role. How far these changes are able to create an ethical and efficient environment is an issue that requires probing. Every innovative introduction and experiment in business world needs an accurate feedback, which can be offered by valid research work.

CONCLUSION

The concept and the dimensions of the corporate governance is changing fast on par with the changing time. Initially when the topic came to limelight, it was focused on business ethics, values and morals. Subsequently the board composition and functioning, corporate disclosures and transparency were in discussion throughout the decade of 1990's. Accordingly, the qualitative concept was incorporated into the legal framework and was made obligatory for the companies to follow and adopt. This phase was in the transformation stage. Corporate sector was yet to fully equip and gear up to the new system. Meanwhile the corporate failures of 2002 especially in USA shifted the attention to the role and responsibility of auditors. The new Sarbanes Oxley Act legislated in USA in July 2002 incorporates lot of regulations and reforms into the system of auditing. Parallel to this in India also, Nareshchandra Committee submitted its recommendation in Dec 2002 which are under consideration. Simultaneously Secretarial standards and the provisions relating to compliance certificate are under thorough revision. Effective implementation and execution of all these rules is the immediate task for the companies.

The regulators, industry associations and professional bodies will all have to come together and work as a team to make corporate governance a movement in Indian corporate sector's journey towards excellence.