CHAPTER II
OBJECTIVES & METHODOLOGY

The study on ‘A Study on Corporate Governance in Selected Indian Industries’ seeks to contribute to the existing literature on Corporate Governance particularly in India. The country was affected by a spate of corporate and stock market scandals immediately after the first phase of economic reforms, necessitating a major debate at national level.

Most of the important requirements set out by the OECD principles in regard to good Corporate Governance are defined in the Companies Act in India. These provisions have been supplemented by SEBI. Based on the recommendations of expert committees on Corporate Governance, SEBI has directed all the stock exchanges to amend their listing agreement to incorporate new clauses to make it binding on the listed companies to improve their governance practices.

This study investigates the development in the disclosure practices in Corporate Governance in eight selected industries in terms of Clause 49 of SEBI regulations using the disclosures scores of one hundred and seventy BSE 500 companies. The study also analyses the impact on corporate performance as a result of governance.

Need for the Study:

Corporate governance is important for the following reasons:

- It lays down the framework for creating long-term trust between companies and the external providers of capital.
- It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience, and a host of new ideas.
- It rationalizes the management and monitoring of risk that a firm faces globally.
- It limits the liability of top management and directors, by carefully articulating the decision making process.
The extensive work carried by the policy and regulation in developing an effective framework induced companies to improve the quality of their governance and enabled them to adopt best practices which provided an opportunity to scale higher in quality and performance. India is recognized as a market having best corporate governance standards, though issues of quality of enforcement, review and effectiveness continue to be raised.

**Objectives of the Study**

1. To investigate the Mandatory Disclosures in Corporate Governance in selected industries in India.

2. To analyze corporate performance and governance in the selected industries in India.

**Scope of the Study**

Today, Corporate India is on the threshold of entering 21st century with the goal to emerge as an economic power. There has been a paradigm shift in the last five years and many of the State controls have been lifted to move towards a free market regime. The process of reforms was continuous and unabated. Clearly the focus of our Government is changing from “regulation” to “management”. Gradual relaxation of direct and indirect administrative controls by government unleashes the spirit of private enterprise and the responsibility of fair conduct is shifted to the market economy.

Mr. Narayana Murthy explains that India carries the distinction of having the largest number of listed companies in the world and an investor population of approximately 50 million in corporate sector, which includes an illiterate farmer, a pavement shopkeeper and ordinary resident of a moffusil town/village. The profile of an average investor reflects a big transformation in our investment culture. Operational reforms of capital market become absolutely essential in this context.

Faced with mounting criticism, several institutional investors have turned activists. Many of them now express their views strongly with regard to matters such as financial and operational performance, business strategy, management compensation,
and so on. They even play an active role, along with non-executive directors on the board, in changing of management, if performance is below the mark. The next important factor is an enormous increase in the power of companies. Individually and collectively through industry associations, companies often influence policy decisions. Strong corporate governance practices are only hope of countering the absolute power of corporations corrupting them absolutely. One more factor is growing intensity of market competition in the global economy is responsible to create a world without economic barriers. Intense market competition has included restructuring of various companies and unprecedented cost cutting.

There have been significant changes in the economic and business scene in the world over in the last 3-4 years. India has no exception. Trade barriers have been lifted, the world is becoming a smaller market, bottom lines are taking precedence and quality is the buzzword to survive in the competitive environment. Corporates now have access to opportunities worldwide. At the same time, they are also faced with threats of global players in India.

Judicial activism and investigative journalism also signify new standards of accountability for those commanding power whether political or economic. There are signals that unhealthy practices would not go unpunished. The impact of these changes on companies is precipitated by economic reforms and resultant completion. Market orientation of the economy has brought, along with it, demand for improved quality of market regulation requiring greater transparency and better disclosure.

Good corporate governance is a must for today’s complex and dynamic business environment to ensure long-term sustainability. So, it should be cultivated and practiced regularly within the current structure of the business. We may institute international awards for good corporate behavior, and promote a global corporate governance ranking system for Fortune 500 corporations and alike. If, as corporations, we ignore the lessons that companies like Enron, WorldCom and Tyco have to offer, we will fail to regain the public trust that is so essential to our long-term success and survival. Corporations that genuinely recognize and embrace the principles of ‘good governance’ will derive enormous benefits, the availability and lower cost of capital, the ability to attract talent clients and business partners, improved competitiveness and financial performance, and truly sustainable long-term growth. As it being a wide
spread and pervasive concept and made debatable in comprehensive manner all around the world, it held to be a transitional phenomenon got a vital significance in the recent trend of corporate ethics and code of governances. There is a great scope for studying this subject, as it being a multifaceted issue and the changing and emerging dimensions further in company law, which gives a larger scope on this subject globally.

Sample Design

Universe of Study

To carry out the study on ‘Corporate Governance in Selected Indian Industries’ is conducted on the companies listed at the Bombay Stock Exchange limited (BSE), Phiroze Jeejeebhoy towers, 25th floor, Dalal street, Mumbai – 400 001. BSE-500 has the 2nd largest number of domestic quoted companies on any stock exchange in the world after NYSE and more quoted companies than either the London or the Tokyo stock exchange (Kumar, 2004). The BSE-500 index constituents form the universe of the study.

BSE-500 Index Constituents

At the very outset a choice had to be made in selecting the BSE-500 index constituents as on December 8, 2005 or as on June 5, 2006. Eleven companies from the index constituents of December 8, 2005 were replaced in the index constituents of June 5, 2006. Sixty two annual reports of all the eleven companies in the index constituents of December 8, 2005 were obtained. Primary examination revealed a valid sample of six companies from this list (Table 2.2.1).

Whereas the index constituents of June 5, 2006 provided only two valid samples from a total of eighteen annual reports obtained from six companies. Data of five companies were not available (Table 2.2.2). Hence the index constituents of December 8, 2005 were selected for the study in order to maximize the sample size.
Table 2.2.1
Replaced Companies of BSE-500 Index Constituents as on December 8, 2006

<table>
<thead>
<tr>
<th>No</th>
<th>Company Name</th>
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<td></td>
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<td>8</td>
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<td>Bajaj Tempo Ltd</td>
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<td>Munjal Auto Industries Ltd</td>
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Table 2.2.2
Replaced Companies of BSE-500 Index Constituents as on June 5, 2007

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<td>3</td>
<td>Jagran Prakashan Limited</td>
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<td>Gujarat State Petronet Ltd</td>
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<td>ABG Shipyard Limited</td>
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90
Data Collection

Annual reports of the companies in the BSE-500 index constituents of December 8, 2006 were collected for the purpose of this study. The main source of data collection is Sansco services, which provides annual reports to library services. Data from CMIE and the companies’ websites are used to fill in the gaps of the missing data and to cross-check the validity of the same.

<table>
<thead>
<tr>
<th>No</th>
<th>Sectors</th>
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<th>Annual Reports</th>
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<tbody>
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<td>I</td>
<td>Agriculture</td>
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<td>03 04 05 06 07</td>
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<tr>
<td>II</td>
<td>Capital Goods</td>
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</tr>
<tr>
<td>III</td>
<td>Chemical &amp; Petrochemical</td>
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<td>24 25 26 32 32</td>
</tr>
<tr>
<td>IV</td>
<td>Consumer Durables</td>
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<td>6   6 6 7 7</td>
</tr>
<tr>
<td>V</td>
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<td>11 11 11 11</td>
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<tr>
<td>VI</td>
<td>Finance</td>
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<td>35 35 36 39 43</td>
</tr>
<tr>
<td>VII</td>
<td>FMCG</td>
<td>29</td>
<td>23 25 26 29</td>
</tr>
<tr>
<td>VIII</td>
<td>Healthcare</td>
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<td>33 36 39 46</td>
</tr>
<tr>
<td>IX</td>
<td>Housing Related</td>
<td>23</td>
<td>17 18 18 20</td>
</tr>
<tr>
<td>X</td>
<td>Information Technology</td>
<td>42</td>
<td>23 25 32 36</td>
</tr>
<tr>
<td>XI</td>
<td>Media &amp; Publishing</td>
<td>15</td>
<td>5   7 8 8</td>
</tr>
<tr>
<td>XII</td>
<td>Metal, Metal Products &amp; Mining</td>
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<td>31 32 30 36</td>
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<td>Miscellaneous</td>
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<tr>
<td>XIV</td>
<td>Oil &amp; Gas</td>
<td>21</td>
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<td>Power</td>
<td>11</td>
<td>4   5 5 7</td>
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<td>XVI</td>
<td>Telecom</td>
<td>12</td>
<td>7   8 9 11</td>
</tr>
<tr>
<td>XVII</td>
<td>Textile</td>
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<td>XVIII</td>
<td>Tourism</td>
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<td>6   6 7 7</td>
</tr>
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<td>XIX</td>
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<td></td>
<td><strong>Total Data Collected of BSE-500 Companies</strong></td>
<td>500</td>
<td>368 386 403 457 465 485 489 349</td>
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</table>
Three thousand four hundred and two annual reports of all the five hundred BSE-500 companies have been collected for the period from 2003-2010 to 2006-07 (Table 2.2.3).

**Reasons for data collection for prior period**

Although the period of study is five years from 2006-07 to 2010-11, data was collected for the preceding period also in order to:

1. Reveal changes in the financial year-ending
2. Changes in financial accounting periods
3. Reasons for missing data
4. Date of listing at BSE
5. De-mergers
6. Change in company names and
7. Reveal changes that reflect over a period of more than five years or a period prior to 2006-07.

**Period of Study**

The period of study is five years extending from 2006-07 to 2010-11.

**Determined on the basis of:**

1. The objective of the study and
2. In reference to Clause 49 of the listing agreement issued by SEBI

**Period of study includes:**

1. Group ‘A’ companies and
2. Companies with a paid-up share capital of Rs. 10 crore and above.

**Rejected period of study**

1. The period earlier to 2006-07 is rejected as it would include only group ‘A’ companies.
2. The period of study from 2006-07 to 2010-11 thus enables a maximum sample size with an optimum study period of five years.

3. The period after 2006-07 is rejected since it includes companies with a paid-up share capital of Rs. 3 crore and above, and reduces the study period to four years.

**Sampling Procedure**

**Non-probability, deliberate Sampling Procedure**

The study adopts the non-probability, deliberate sampling procedure. It follows a systematic and purposive procedure to determine the final sample. The universe of the study consisting of five hundred companies of the BSE-500 Index which is divided into twenty sectors, is subject to a primary scrutiny or investigation on the basis of six conditions.

**Conditions for scrutiny or investigation of universe of the study**

1. Availability of annual reports for the period of study (2006-07 to 2010-11).
2. Financial year-ending adopted by the BSE-500 companies.
3. Period of financial accounts maintained by the BSE-500 companies.
4. Missing data and reasons for the same.
5. Availability of Corporate Governance Reports in annual reports.
6. Reasons for non-availability of corporate governance reports in annual reports.

This scrutiny of three thousand four hundred and two annual reports of companies from twenty sectors lead to the rejection of one hundred and seventy three companies from various sectors under eight conditions (Table 2.2.4).
Conditions for rejection of samples

1. Financial year ending other than March for the period from 2006-07 to 2010-11.
2. Non-available or missing annual reports.
3. Change in financial year-ending during the study period i.e. more than one financial year-ending during the entire study period.
4. Fluctuating financial year i.e. more than two year-ending periods during the study period.
5. Financial accounts maintained for more or less than 12 months.
7. Companies listed at BSE or incorporated after f.y. 2006-07.
8. Share capital less than 10 crore and therefore CG report not published.

Table 2.2.4
Rejected Sector Sample of BSE-500 Companies

<table>
<thead>
<tr>
<th>No</th>
<th>Sectors</th>
<th>Co</th>
<th>Rej</th>
<th>Under Condition</th>
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<td>Capital Goods</td>
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<td>13 5 0 2 2 2 0 2</td>
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<tr>
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<td>Chemical &amp; Petrochemical</td>
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<td>1 0 0 0 0 0 0 0</td>
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<td>VI</td>
<td>Finance</td>
<td>46</td>
<td>12</td>
<td>1 2 0 1 7 10 9 0</td>
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<td>VII</td>
<td>FMCG</td>
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<td>8</td>
<td>7 2 0 2 0 0 0 0</td>
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<td>Media &amp; Publishing</td>
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</table>

| 500 173 99 57 13 52 71 85 42 5 |
Out of the total of three hundred and twenty seven accepted sample, annual reports of sixty two companies for the year-ending March 31, 2010 is not available as on December 31, 2010 and therefore reduced to obtain a final sample of two hundred and sixty five companies (Table 2.2.5).

Table 2.2.5
Sample Size of BSE-500 Companies

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>Total Sample</th>
<th>Rejected Sample</th>
<th>Accepted Sample</th>
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<td>5</td>
</tr>
<tr>
<td>XIV</td>
<td>Telecom</td>
<td>12</td>
<td>2</td>
<td>10</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>XVII</td>
<td>Textile</td>
<td>18</td>
<td>8</td>
<td>10</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>XVIII</td>
<td>Tourism</td>
<td>7</td>
<td>1</td>
<td>6</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>XIX</td>
<td>Transport Equipments</td>
<td>44</td>
<td>12</td>
<td>32</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>XX</td>
<td>Transport Services</td>
<td>10</td>
<td>4</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>500</strong></td>
<td><strong>173</strong></td>
<td><strong>327</strong></td>
<td><strong>62</strong></td>
<td><strong>265</strong></td>
</tr>
</tbody>
</table>

Thus we arrive at the choice between two categories;

Category I: Accepted sample category and

Category II: Final sample category.
These categories are subjected to the two conditions to arrive at the final selection of the sector sample.

1. Sectors having more than 50% valid sample and
2. Sectors having more than 10 companies to form a valid sample.

### Table 2.2.6
**Category I-Accepted Sector Sample of BSE-500 Companies**

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>Total Sample</th>
<th>Accepted Sample</th>
<th>Under Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Category I</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>Agriculture</td>
<td>28</td>
<td>19</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Capital Goods</td>
<td>41</td>
<td>23</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Chemical &amp; Petrochemical</td>
<td>32</td>
<td>23</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Finance</td>
<td>46</td>
<td>34</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>FMCG</td>
<td>29</td>
<td>21</td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>Healthcare</td>
<td>49</td>
<td>26</td>
<td>✓</td>
</tr>
<tr>
<td>7</td>
<td>Housing Related</td>
<td>23</td>
<td>13</td>
<td>✓</td>
</tr>
<tr>
<td>8</td>
<td>Information Technology</td>
<td>42</td>
<td>26</td>
<td>✓</td>
</tr>
<tr>
<td>9</td>
<td>Metal, Metal Products &amp; Mining</td>
<td>37</td>
<td>26</td>
<td>✓</td>
</tr>
<tr>
<td>10</td>
<td>Oil &amp; Gas</td>
<td>21</td>
<td>15</td>
<td>✓</td>
</tr>
<tr>
<td>11</td>
<td>Transport Equipments</td>
<td>44</td>
<td>32</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td></td>
<td>392</td>
<td>258</td>
<td></td>
</tr>
</tbody>
</table>

**Rejected Sectors : Rejected by U/ C1 & 2**

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>Total Sample</th>
<th>Accepted Sample</th>
<th>Under Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Media &amp; Publishing</td>
<td>15</td>
<td>7</td>
<td>×</td>
</tr>
<tr>
<td>2</td>
<td>Miscellaneous</td>
<td>17</td>
<td>8</td>
<td>×</td>
</tr>
<tr>
<td></td>
<td></td>
<td>32</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

**Rejected Sectors : Rejected by U/ C2**

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>Total Sample</th>
<th>Accepted Sample</th>
<th>Under Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Consumer Durables</td>
<td>7</td>
<td>5</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Diversified</td>
<td>11</td>
<td>10</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Power</td>
<td>11</td>
<td>7</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Telecom</td>
<td>12</td>
<td>10</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>Textile</td>
<td>18</td>
<td>10</td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>Tourism</td>
<td>7</td>
<td>6</td>
<td>✓</td>
</tr>
<tr>
<td>7</td>
<td>Transport Services</td>
<td>10</td>
<td>6</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td></td>
<td>76</td>
<td>54</td>
<td></td>
</tr>
</tbody>
</table>

After testing category I under the two conditions, we have an accepted sample size under condition 1 and 2 of two hundred and fifty eight companies from eleven sectors has been taken up. Two sectors of a total of fifteen companies are rejected under both
conditions. Seven sectors consisting of fifty four companies are rejected under condition 2 (Table 2.2.6).

Table 2.2.7
Category II – Final Sector Sample of BSE-500 Companies

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>Total Sample</th>
<th>Final Sample</th>
<th>Under Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>Agriculture</td>
<td>28</td>
<td>15</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Capital Goods</td>
<td>41</td>
<td>21</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Chemical &amp; Petrochemical</td>
<td>32</td>
<td>22</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Finance</td>
<td>46</td>
<td>29</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>Information Technology</td>
<td>42</td>
<td>21</td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>Metal, Metal Products &amp; Mining</td>
<td>37</td>
<td>19</td>
<td>✓</td>
</tr>
<tr>
<td>7</td>
<td>Oil &amp; Gas</td>
<td>21</td>
<td>13</td>
<td>✓</td>
</tr>
<tr>
<td>8</td>
<td>Transport Equipments</td>
<td>44</td>
<td>30</td>
<td>✓</td>
</tr>
</tbody>
</table>

Accepted Sectors: 291 companies, 170 are final sample.

Rejected Sectors: Rejected by U/ C1 & 2

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>Total Sample</th>
<th>Final Sample</th>
<th>Under Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>Media &amp; Publishing</td>
<td>15</td>
<td>4</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Miscellaneous</td>
<td>17</td>
<td>5</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Power</td>
<td>11</td>
<td>5</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Textile</td>
<td>18</td>
<td>8</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>Transport Services</td>
<td>10</td>
<td>3</td>
<td>✓</td>
</tr>
</tbody>
</table>

Rejected Sectors: Rejected by U/ C1

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>Total Sample</th>
<th>Final Sample</th>
<th>Under Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>FMCG</td>
<td>29</td>
<td>11</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Healthcare</td>
<td>49</td>
<td>21</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Housing Related</td>
<td>23</td>
<td>11</td>
<td>✓</td>
</tr>
</tbody>
</table>

Rejected Sectors: Rejected by U/ C2

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>Total Sample</th>
<th>Final Sample</th>
<th>Under Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>Consumer Durables</td>
<td>7</td>
<td>4</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Diversified</td>
<td>11</td>
<td>10</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Telecom</td>
<td>12</td>
<td>7</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Tourism</td>
<td>7</td>
<td>6</td>
<td>✓</td>
</tr>
</tbody>
</table>

Rejected Sectors: Rejected by U/ C2

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>Total Sample</th>
<th>Final Sample</th>
<th>Under Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

Subjecting category II to the similar test, are arrived at eight accepted sectors consisting of one hundred and seventy companies. Five sectors of a total of twenty five companies are rejected under both conditions. Three sectors consisting of forty three companies are rejected under condition 1 and four sectors composed of twenty seven companies are rejected under condition 2 (Table.2.2.7). Hence category II is selected as the final sample size, using judgment sampling procedure.
The rational for selection of category II:

1. A very definite sector sample with no expected changes or drop in sample size.
2. Category II reduces by three sectors viz. FMCG, healthcare and housing related under condition no. 1, i.e. the sample size is less than 50% of the total sample.
3. Annual report are published for five years covering the entire study period from 2006-07 to 2010-11.
4. Financial year ending in March.
5. Financial accounts are for a period of 12 months for all years under study.
6. Corporate governance reports are published in the respective annual reports.
7. Advantage of time.

Sample Size

The final sector sample selection consists of eight accepted sectors of one hundred and seventy companies (Table 2.2.8).

Table 2.2. 8
Final Sample Size of BSE-500 Companies

<table>
<thead>
<tr>
<th>No</th>
<th>Sectors</th>
<th>Final Sample</th>
<th>% Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agriculture</td>
<td>15</td>
<td>8.82</td>
</tr>
<tr>
<td>2</td>
<td>Capital Goods</td>
<td>21</td>
<td>12.35</td>
</tr>
<tr>
<td>3</td>
<td>Chemical &amp; Petrochemical</td>
<td>22</td>
<td>12.94</td>
</tr>
<tr>
<td>4</td>
<td>Finance</td>
<td>29</td>
<td>17.06</td>
</tr>
<tr>
<td>5</td>
<td>Information Technology</td>
<td>21</td>
<td>12.35</td>
</tr>
<tr>
<td>6</td>
<td>Metal, Metal Products &amp; Mining</td>
<td>19</td>
<td>11.18</td>
</tr>
<tr>
<td>7</td>
<td>Oil &amp; Gas</td>
<td>13</td>
<td>7.64</td>
</tr>
<tr>
<td>8</td>
<td>Transport Equipments</td>
<td>30</td>
<td>17.65</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>170</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Research Design for the 1st Objective

Focusing on the objective ‘To investigate the Mandatory Disclosures in Corporate Governance in Selected Industries in India’, the study utilizes corporate governance
reports published in the annual reports from 2006-07 to 2010-11. It investigates the disclosures of corporate governance published in the annual reports by selected Indian companies to understand whether companies are complying with corporate governance code with reference to Clause 49 of the listing agreement issued by SEBI.

**Research Methodology**

Each annual report is examined individually. Special attention is given to corporate governance reports therein. Text within this section is analyzed. Other corporate governance issues in other parts of the annual report forming part of the Clause 49 are also taken into consideration.

**Content Analysis Technique**

The contents of the Corporate Governance Report are analyzed using content analysis. Content Analysis is a research technique widely used in the social sciences which objectively and quantitatively examines written or oral communications in order to make inferences about values, meanings or understandings being conveyed (Gupta et.al. 2006).

**Method of Content Analysis Technique**

1. The method involves classifying text units into categories.
2. It is an adaptable technique that has been used in variety of situations, and in particular in Corporate Social Disclosure studies.
3. An integral part of content analysis is the identification of key issues contained in the annual report.
4. Content analysis is useful in analyzing reporting practices.

**Distinguishing features of Content Analysis Technique**

1. The need to define categories clearly. Others can replicate results.
2. The need to have mutually exclusive categories.
3. The need to have a classification scheme which leads to disclosures being able to be quantified.
4. The application of this classification scheme is made consistently by the researcher.

Methodological limitations of Content Analysis

1. Internal Validity
   This essentially relates to the validity of the study’s measurement model. To overcome this limitation validity is achieved through the use of Corporate Governance Index (CGI) which has been constructed and developed from SEBI guidelines on Clause 49 of the listing agreement. Index of Corporate Governance is a composite measure combining all the measures into one.

2. Reliability of the Analysis
   Reliability of the analysis is hampered in a subjective process. To eliminate this subjectivity in the allocation of the content of reports into categories based on their major theme, annexure of the Clause 49 is strictly adhered. To minimize possible bias, the annual reports are analyzed independently according to the predetermined classification scheme of the Corporate Governance Index (CGI).

3. External Validity
   To establish external validity of the study or generalization to the entire Indian corporate sector, a sectorial study is undertaken with two basic conditions viz.

   1. Sectors having more than 50% valid sample and
   2. Sectors having more than 10 companies to form a valid sample.

Corporate Governance Disclosure Index (CGI)

The Corporate Governance Disclosure Index (CGI) is constructed from the framework of Clause 49 of the listing agreement issued by SEBI. Disclosure scores are arrived at using the Corporate Governance Disclosure Index (CGI). For the process of data analysis corporate governance reports are analyzed under three basic heads viz.

   1. Mandatory Disclosures(Table 2.3.3)
   2. Non-Mandatory Disclosures (Table 2.3.4)
3. Items included in the Annual Report as per Clause 49 (Table 2.3.5).

These are further divided into various dimensions. Mandatory disclosures have twelve sub-groups with eighty items of disclosure. Non-mandatory disclosures have seven sub-groups with ten items of disclosure. Items to be included in the annual report as per Clause 49 have five sub-groups with twenty items of disclosure. Thus there are one hundred and ten items of disclosure under various heads.

**Reasons for Including Non-Mandatory Disclosures**

Although the objective of the study is to investigate the mandatory disclosures, non-mandatory disclosures are also included in the study. This is in order to accommodate Clause 49 (VII) of compliance which states that the non-mandatory requirements may be implemented as per the discretion of the company. However, the disclosures of the adoption/non- adoption of the non-mandatory requirements shall be made in the section on corporate governance of the annual report.

**Reasons for Including Other Items.**

Other items are to be included in the annual report as per Clause 49 viz.:

1. Management discussion and analysis report should form part of the annual report as per Clause 49 (IV) (F).
2. All pecuniary relationships or transactions of non-executive directors with the company shall be disclosed in the annual report as per Clause 49 (IV) (E).
3. Items included in report on corporate governance are as per Clause 49(VI).
4. Items included in compliance are as per Clause 49 (VII).

**Evaluation Methodology**

1. Disclosure scores are arrived at using the Corporate Governance Disclosure Index (CGI).
2. The index is provided for one hundred and seventy companies from eight sectors of the BSE-500 index constituents for five years from 2006-07 to 2010-11.
3. Scores are allotted using a five point scale under the generalized “AIMCO” system of scoring prepared for this study (Table 2.2.9).

4. For detailed investigation a score card has been designed for the purpose of this study indicating the marks to be allocated to every item of disclosure.

5. The score card provides uniformity in the scoring system enabling further investigation and analysis of the disclosures scores.

### Table 2.2.9: AIMCO System Scoring

<table>
<thead>
<tr>
<th>Notation</th>
<th>Details</th>
<th>Scores</th>
<th>% Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Absence of Disclosure</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>I</td>
<td>Incomplete Disclosure</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>M</td>
<td>Moderate Disclosure</td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td>C</td>
<td>Complete Disclosure</td>
<td>4</td>
<td>80</td>
</tr>
<tr>
<td>O</td>
<td>Outstanding Disclosure</td>
<td>5</td>
<td>100</td>
</tr>
</tbody>
</table>

### Procedure for Analysis

1. The items of disclosures provide an understanding of the Corporate Governance Reporting practices of companies.

2. The Corporate Governance Disclosure Index (CGI) is constructed from the framework of Clause 49 of the listing agreement issued by SEBI.

3. Corporate Governance Reports are analysed using Content Analysis Technique to calculate disclosure scores to understand the efficacy and quality of disclosures.

4. Each sector is studied separately.

5. The scores of every company are noted on separate worksheets.

6. Scores are allotted individually for every item of disclosure for every sample company in the eight selected sectors per year of the study period.

7. One hundred and ten items of disclosure, which form a part of the Corporate Governance Disclosure Index (CGI), are evaluated using a five point scale method.

8. The minimum score is 110 and the maximum score that can be achieved is 550.


**Computation of Corporate Governance Index (CGI) Scores.**

1. For the computation of Corporate Governance Index (CGI) the scores of individual companies are further combined into a summary sheet to arrive at the total scores of each sector. Worksheets involving the total scores of all companies from the sample sectors are prepared.

2. The Index provides information on one hundred and ten items of disclosure. For the process of data analysis corporate governance reports are analyzed under three basic heads viz. mandatory disclosures, non-mandatory disclosures and items included in the annual report as per Clause 49.

3. These are further divided into various dimensions. Mandatory disclosures have twelve sub-groups with eighty items of disclosure. Non Mandatory disclosures have seven sub-groups with ten items of disclosure. Items to be included in the annual report as per Clause 49 have five sub-groups with twenty items of disclosure.

4. Scores of every item of disclosure in each sub-group is combined to arrive at the value of the independent variables. Each sub-group within the CGI provides an independent variable (Table 2.3.2). These variables are analyzed and interpreted using statistical procedures in SPSS 11.01 software.

5. Descriptive statistics are used to make comparisons and draw conclusions about the pattern of corporate disclosure practices per sector during the five year study period.

**Items not included in the Corporate Governance Index (CGI)**

One hundred and ten items of disclosure, which form a part of the Corporate Governance Disclosure Index (CGI) includes most items stipulated under the regulation.

It does not include:

1. Subsidiary companies [Clause 49 (III)].
2. Disclosure of accounting treatments [Clause 49 (IV) (B)].
3. Proceeds from public issues, rights issues, preferential issues etc. [Clause 49 (IV) (D)].

**Reasons for not including certain items in the Corporate Governance Index (CGI)**

1. The study would become very vast.
2. Not possible to complete the study in the stipulated time period.
3. Not possible to compare results from company to company as these clauses would be applicable to companies only at a specific time period.

<table>
<thead>
<tr>
<th>No.</th>
<th>Independent Variables</th>
<th>Notation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Companies’ Philosophy on Governance</td>
<td>MDCP</td>
<td>Variable includes corporate governance code. The maximum score for MDCP is 5 and the minimum score is 1 per year per company.</td>
</tr>
<tr>
<td>2</td>
<td>Board of Directors</td>
<td>MDBD</td>
<td>Variable includes composition, attendance, membership and board meetings. The maximum score for MDBD is 40 and the minimum score is 8 per year per company.</td>
</tr>
<tr>
<td>3</td>
<td>Audit Committee</td>
<td>MDAC</td>
<td>Variable includes quorum, terms of reference, composition, attendance and audit committee meetings. The maximum score for MDAC is 45 and the minimum score is 9.</td>
</tr>
<tr>
<td>4</td>
<td>Risk Management Committee</td>
<td>MDRM</td>
<td>Variable includes procedures, terms of reference, composition, attendance and risk management committee meetings. The maximum score for MDRM is 30 and the minimum score is 6 per year per company.</td>
</tr>
<tr>
<td>5</td>
<td>Management Committee</td>
<td>MDMC</td>
<td>Variable includes terms of reference, composition, attendance and management committee meetings are included here. The maximum score for MDMC is 15 and the minimum score is 3 per year per company.</td>
</tr>
<tr>
<td>6</td>
<td>Director’s Committee</td>
<td>MDDC</td>
<td>Variable includes terms of reference, composition, attendance and director’s committee meetings. The maximum score for MDDC is 15 and the minimum score is 3 per year per company.</td>
</tr>
<tr>
<td>No.</td>
<td>Independent Variables</td>
<td>Notation</td>
<td>Description</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------------------</td>
<td>----------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>7</td>
<td>Remuneration Committee</td>
<td>MDRC</td>
<td>Variable includes remuneration policy, terms of reference, composition, attendance, shares and convertible instruments held by non-executive directors. The maximum score for MDRC is 40 and the minimum score is 8 per year per company.</td>
</tr>
<tr>
<td>8</td>
<td>Investor’s Grievance Committee</td>
<td>MDIG</td>
<td>Variable includes purpose, share transfer agent, shareholders’ complaints and meetings. The maximum score for MDIG is 50 and the minimum score is 10.</td>
</tr>
<tr>
<td>9</td>
<td>General Body Meetings</td>
<td>MDGB</td>
<td>Variable includes last three AGMs, special resolutions, postal ballot and procedures. The maximum score for MDGB is 30 and the minimum score is 6 per year per company.</td>
</tr>
<tr>
<td>10</td>
<td>Other Disclosures</td>
<td>MDOD</td>
<td>Variable includes related party transactions, non-compliance, penalties, whistle blower policy and compliance with mandatory requirements. The maximum score for MDOD is 20 and the minimum score is 4 per year per company.</td>
</tr>
<tr>
<td>11</td>
<td>Means of Communication</td>
<td>MDCO</td>
<td>Variable includes newspapers, website, presentation and information furnished to stock exchanges. The maximum score for MDCO is 35 and the minimum score is 7 per year per company.</td>
</tr>
<tr>
<td>12</td>
<td>General Shareholder Information</td>
<td>MDSH</td>
<td>Variable includes date, time and venue of AGM, financial year, book closure, dividend payment date, listings, stock codes, market price data, performance, registrar and transfer agents, share transfer system, shareholding, dematerialization, outstanding GDRs, plant locations and address. The maximum score for MDSH is 75 and the minimum score is 15.</td>
</tr>
<tr>
<td>13</td>
<td>Non-Mandatory Disclosures</td>
<td>NMD</td>
<td>Variable includes the non-mandatory disclosures such as benefits to non-executive directors, remuneration committee, half-yearly financial performance, audit qualifications, training, evaluating and whistle blower policy. The maximum score for NMD is 50 and the minimum score is 10 per year per company.</td>
</tr>
<tr>
<td>14</td>
<td>Other Items of Disclosures</td>
<td>OID</td>
<td>Variable includes the management discussion report, pecuniary relationships, CEO/CFO certification, CG report and compliance certificate. The maximum score for OID is 100 and the minimum score is 20.</td>
</tr>
</tbody>
</table>
### A. Mandatory

#### I Companies’ Philosophy on Code of Governance
1. Corporate Governance Code

#### II. Board of Directors
2. At least 50% of the board of directors comprises of non-executive directors.
3. In case of executive director as chairman at least 50% are independent directors. In case of non-executive director as chairman at least one-third are independent directors.
4. The board meets at least four times a year within a gap of three months between two meetings.
5. A director is a chairman in not more than five committees and a member in not more than ten committees.
6. Composition of the board and category of directors.
7. Attendance of directors at board meetings and the last AGM
8. Membership on other board committees.
9. Number of board meetings held and dates thereof

#### III. Audit Committee
10. Constituted by at least three members of which 2/3 are independent directors
11. The chairman is an independent director.
12. The presence of the chairman at the AGM.
13. The company secretary is the secretary of the committee.
14. The committee meets at least four times a year within a gap of four months between two meetings.
15. Quorum is the greater of either two or 1/3 members with a minimum of two independent members.
17. Composition, name of members and chairperson.
18. Meetings and attendance during the year

#### IV. Risk Management Committee
19. Whether any risk management procedures are adopted.
20. Whether any procedure is laid down to inform the board about risk management and minimization procedure.
21. Whether risk management is reviewed periodically and what is the periodicity of review.
22. Description of terms of reference.
23. Composition, name of members and chairperson.
24. Meetings and attendance during the year

#### V. Management Committee
25. Description of terms of reference.
26. Composition, name of members and chairperson.
27. Meetings and attendance during the year

#### VI. Directors’ Committee
29. Composition, name of members and chairperson.
30. Meetings and attendance during the year
### VII. Remuneration Committee

31. Description of terms of reference.
32. Composition, name of members and chairperson.
33. Attendance during the year.
34. Remuneration policy.
35. Details of remuneration to all the directors.
36. Criteria of making payments to non-executive directors.
37. The number of shares held by non-executive directors.
38. The number of convertible instruments held by non-executive directors.

### VIII. Shareholders/Investors’ Grievance Committee

39. The chairperson is a non-executive director.
40. The purpose of the committee is to look into the redressal of investor’s complaints like transfer of shares, non-receipts of balance sheet, non-receipt of declared dividend, etc.
41. Meetings are held as per terms of reference.
42. Power of share transfer is delegated to an officer or a committee or share transfer agent.
43. The delegated authority attends to share transfer formalities at least once in a fortnight.
44. Name of the non-executive director heading the committee.
45. Name and designation of compliance officer.
46. Number of shareholders’ complaints received so far.
47. Number of complaints not solved to the satisfaction of shareholders.
48. Number of pending complaints.

### IX. General Body Meetings

49. Location and time of last three AGMs held.
50. Whether any special resolutions were passed in the previous 3 AGMs.
51. Whether any special resolutions were passed last year through postal ballot – details of voting pattern.
52. Person who conducted the postal ballot exercise.
53. Whether any special resolution is proposed to be conducted through postal ballot.
54. Procedure for postal ballot.

### X. Disclosures

55. Materially significant related party transactions that may have potential conflict with the interests of the company.
56. Details of non-compliance, penalties, strictures imposed by SEBI or any statutory authority, on any matter related to capital markets, during the last three years.
57. Whistle Blower policy and affirmation that no personnel has been denied access to the audit committee.
58. Details of compliance with Mandatory requirements and adoption of the Non-Mandatory requirements.

### XI. Means of Communication

59. Whether quarterly financial results have been published.
60. Newspapers where in results are normally published.
61. Any website, where the financial results are displayed.
62. Whether any presentation was made or information furnished to any business/market analyst.
63. Whether the website displays official news releases.
64. Whether the website also displays the presentations made to institutional investors or to the analysts.
65. Was the information furnished to the respective stock exchanges.

**XII. General Shareholder Information**

66. AGM: Date, time and venue
67. Financial year
68. Date of book closure
69. Dividend payment date
70. Listing on stock exchanges
71. Stock code
72. Market price data: High, Low during each month in the last financial year
73. Performance in comparison to broad-based indices
74. Registrar and transfer agents
75. Share transfer system
76. Distribution of shareholding
77. Dematerialization of shares and liquidity
78. Outstanding GDRs/ADRs/ warrants or any convertible instruments, conversion data and likely impact on equity
79. Plant locations
80. Address for correspondence

Table 2.3.2

**Item Wise Non-Mandatory Disclosures of Corporate Governance**

<table>
<thead>
<tr>
<th><strong>B. Non-Mandatory Disclosures</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Chairman of the Board</strong></td>
</tr>
<tr>
<td>81. Benefits to non-executive directors</td>
</tr>
<tr>
<td><strong>II. Remuneration Committee</strong></td>
</tr>
<tr>
<td>82. Whether it determines specific remuneration packages for executive directors</td>
</tr>
<tr>
<td>83. Whether it is composed of at least three non-executives directors and chaired by an independent director</td>
</tr>
<tr>
<td>84. Whether all members were present at the meeting</td>
</tr>
<tr>
<td>85. Whether the chairperson or a representative was present at the AGM</td>
</tr>
<tr>
<td><strong>III. Shareholders Rights</strong></td>
</tr>
<tr>
<td>86. Half – yearly declaration of financial performance and summary of significant events in the last six months sent to shareholders</td>
</tr>
<tr>
<td><strong>IV. Audit Qualifications</strong></td>
</tr>
<tr>
<td>87. Whether it has moved towards a regime of unqualified financial statements</td>
</tr>
<tr>
<td><strong>V. Training of Board Members</strong></td>
</tr>
<tr>
<td>88. Training in the business model, risk profile of business parameters, responsibilities as directors and best ways to discharge them</td>
</tr>
<tr>
<td><strong>VI. Mechanism for Evaluating Non-Executive Board Members</strong></td>
</tr>
<tr>
<td>89. Whether performance is evaluated by peer group evaluation mechanism</td>
</tr>
<tr>
<td><strong>VII. Whistle Blower Policy</strong></td>
</tr>
<tr>
<td>90. Mechanism for employees to report to the management unethical practices and if required direct access to the chairperson of the audit committee</td>
</tr>
</tbody>
</table>
Table 2.3.3:
Items Included in the Annual Report as per Clause 49

<table>
<thead>
<tr>
<th>C. Items included in the Annual Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Management</td>
</tr>
<tr>
<td>91. Whether management discussion and analysis report forms a part of the directors’ report or as addition thereto.</td>
</tr>
<tr>
<td>92. Whether a certificate of compliance of code of conduct is obtained from board members and directors.</td>
</tr>
<tr>
<td>93. Whether a certificate of compliance of code of conduct is obtained from senior management personnel</td>
</tr>
<tr>
<td>94. Whether the certificate of compliance of code of conduct is displayed on the website</td>
</tr>
<tr>
<td>95. Brief resume of directors and senior management personnel</td>
</tr>
<tr>
<td>II. Remuneration of Directors</td>
</tr>
<tr>
<td>96. Whether all pecuniary relationships of non-executive directors with the company are disclosed.</td>
</tr>
<tr>
<td>97. Whether all pecuniary transactions of non-executive directors with the company are disclosed</td>
</tr>
<tr>
<td>III. CEO/CFO Certification</td>
</tr>
<tr>
<td>98. Whether the certificate is certified by the CEO.</td>
</tr>
<tr>
<td>99. Whether the certificate is certified by the CFO.</td>
</tr>
<tr>
<td>100. Whether the certificate is noted at the board meeting</td>
</tr>
<tr>
<td>IV. Report on Corporate Governance</td>
</tr>
<tr>
<td>101. Whether the annual report contains a report on Corporate Governance as a separate section.</td>
</tr>
<tr>
<td>102. Whether it states non-compliance with any mandatory requirements and reasons for non-compliance.</td>
</tr>
<tr>
<td>103. Whether it states the extent to which non-mandatory requirements in annexure 1D of Clause 49 are adopted.</td>
</tr>
<tr>
<td>104. Whether the report covers all items in annexure 1C of Clause 49</td>
</tr>
<tr>
<td>105. Whether the compliance report was prepared for every quarter</td>
</tr>
<tr>
<td>106. Whether the report was signed by the compliance officer or the chief executive officer</td>
</tr>
<tr>
<td>107. Whether a quarterly report on compliance as per Clause 49 was submitted to every stock exchange where the securities are listed within 15 days of the respective quarter</td>
</tr>
<tr>
<td>V. Compliance</td>
</tr>
<tr>
<td>108. Whether a certificate of compliance was obtained from its statutory auditor of company secretary.</td>
</tr>
<tr>
<td>109. Whether the certificate was attached the board report</td>
</tr>
<tr>
<td>110. Whether the certificate was sent to the stock exchanges along with the annual report</td>
</tr>
</tbody>
</table>
Research Design for the 2\textsuperscript{nd} Objective

Focusing on the objective ‘To analyse Corporate Performance and Governance in the Selected Industries’, the study utilizes financial statements published in the annual reports from 2006-07 to 2010-11 and scores of the sample companies from the Corporate Governance Disclosure Index (CGI). This objective provides an empirical validation of increase in corporate performance as a result of proper corporate governance practices in the Indian context.

**Measures of Performance as Dependent Variable**

This study uses financial statements from the annual reports of one hundred and seventy companies from eight sectors as per the sample design over a time frame of five years from 2006-07 to 2010-11 to study the financial performance across various dimensions viz. Accounting Profitability and its Components. The major areas of focus are Accounting–based performance measures of profitability of a firm such as Return On Equity (ROE), Return On Net Worth (RONW), Return On Capital Employed (ROCE) and Return On Assets (ROA). These variables analyse performance from various dimensions for the respective years for each of the sample sector.

**Measures of Corporate Governance as Independent Variable**

Fourteen sub-groups amounting to one hundred and ten items of disclosure, which form a part of the Corporate Governance Disclosure Index (CGI) are used as the independent variables viz. Companies’ Philosophy on code of Governance (MDCP), Board of Directors (MDBD), Audit Committee (MDAC), Risk Management Committee (MDRM), Management Committee (MDMC), Directors’ Committee (MDDC), Remuneration Committee (MDRC), Shareholders/Investors’ Grievance Committee (MDIG), General Body Meetings (MDGB), Other Disclosures (MDOD), Means of Communication (MDCO), General Shareholder Information (MDSH), Non-Mandatory Disclosures (NMD), Other Items of Disclosures (OID).
Hypotheses of the Study

Like many other management philosophies, corporate governance has been increasing and receiving worldwide attention. Corporate governance initiatives in India began in 1998 with the Desirable Code of Corporate Governance – Voluntary Code published by the Confederation of Indian Industries (CII). The first formal regulatory framework for listed companies specifically for corporate governance, established by Securities and Exchange Board of India (SEBI) was made in February 2000, following the recommendations of the Kumarmangalam Birla Committee Report. Based on the recommendations of this committee, a new Clause 49 was incorporated in the stock exchange listing agreement.

However, with an objective to improving corporate governance standards in India, SEBI once again constituted a committee in 2002 under the chairmanship of Mr.N.R.Narayana Murthy to review the existing code on corporate governance. The committee evaluated the adequacy of existing practices and suggested measures to improve existing practices. The issues discussed by the committee primarily related to audit committees, audit reports, independent directors, related parties, risk management, directorships and director compensation, codes of conduct and financial disclosures.

The creation of strong corporate governance frameworks is regarded as a mechanism to prevent any unintended consequences of the new management ethos, without necessarily inhibiting the flexibility, innovation and entrepreneurial risk now required. Good corporate governance helps ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate. Further it ensures that their boards are accountable to the shareholders.

In the opinion of the SEBI committee, the imperative for corporate governance lies not merely in having a code of corporate governance, but in practicing it. What counts is the way in which these are put to use. The committee time and again stressed that companies should comply with the corporate governance code, in substance and not merely in form.
SEBI Guidelines on Corporate Governance

The recommendations of Kumarmangalam Birla committee identifies three key constituents of corporate governance as the shareholders, the board of directors and the management with three key aspects of corporate governance as accountability, transparency and equality of treatment for all stakeholders. The recommendations of the committee were divided into Mandatory and Non-Mandatory categories. The mandatory recommendations had been enforced through the amendment of the listing agreement. The companies have to submit the compliance status on eight sub clauses in addition to the company’s philosophy on corporate governance. These sub clauses are related to board of directors, audit committee, shareholders/investors’ grievance committee, remuneration of directors, board procedures, management, shareholders and report on corporate governance. This framework has been considered in this study in analyzing the disclosures in the annual report.

Hypotheses of the Study

A brief statement on companies’ philosophy on code of governance is to be included in the report on corporate governance in the annual report of companies. The study tests the influence of the company’s code on performance.

H₁: Company’s Philosophy on Corporate Governance affects Performance.

Clause 49(I) (A) provides explanation on the composition and constitution of the board. At least 50% of the board of directors comprises of non-executive directors. In case of executive director as chairman at least 50% are independent directors. In case of non-executive director as chairman at least one-third are independent directors. The board meets at least four times a year within a gap of three months between two meetings. A director is a chairman in not more than five committees and a member in not more than ten committees. Disclosure on composition of the board and category of directors, attendance of directors at board meetings and the last AGM, membership on
other boards committees and number of board meetings held and dates thereof are some of the information to be provided. The study seeks the influence of the board on performance.

**H₂: Composition and Conduct of Board of Directors Influences Performance.**

As per Clause 49(II) a qualified and independent audit committee shall be set up giving the terms of reference. It should be constituted by at least three members of which 2/3 are independent directors. The chairman is an independent director and is present at the AGM. The company secretary is the secretary of the committee. The committee meets at least four times a year within a gap of four months between two meetings. Quorum is the greater of either two of 1/3 members with a minimum of two independent members’ disclosure of composition, name of members and chairperson, meetings and attendance during the year are provided by the company. The study seeks the influence of the audit committee on performance.

**H₃: Composition and Conduct of Audit Committee Influences Performance.**

Clause 49(IV) (C) lays down procedures about risk assessment. Whether any risk management procedures are adopted, whether any procedure is laid down to inform the board about risk management and minimization procedure, whether risk management procedure is reviewed periodically and what is the periodicity of review, description of terms of reference, composition, name of members and chairperson and meetings and attendance during the year are some of the information that is required. The relation of risk management committee to performance is analysed.

**H₄: Procedures related to Risk Management Committee Influences Performance.**

Clause 49(IV) (F) requires information on description of terms of reference, composition, name of members and chairperson and meetings and attendance
during the year management committee. Corporate Governance Index investigates this information provided by companies and its relation to performance.

**H5: Procedures related to Management Committee Influences Performance.**

Description of terms of reference, composition, names of members and chairperson and meetings and attendance during the year. Directors’ committee is investigated in relation to performance.

**H6: Procedures related to Directors’ Committee Influences Performance.**

Clause 49(IV)(E) provides guidelines for remuneration committee. Description of terms of reference, composition, name of members and chairperson, meetings and attendance during the year, remuneration policy, details of remuneration to all the directors, criteria of making payments to non-executive directors, the number of shares held by non-executive directors and the number of convertible instruments held by non-executive directors are some of the information sort out in the CGI and its influence on performance is analyzed.

**H7: Policies and Procedures related to Remuneration Committee affects Performance.**

Investors rights are protected by SEBI and their grievances are redressed. The norms of the committee include that the chairperson is a non-executive director. The purpose of the committee is to look into the redressal of investors’ complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividend, etc., meetings are held as per terms of reference. Power of share transfer is delegated to an officer or a committee or share transfer agent. The delegated authority attends to share transfer formalities at least once in a fortnight. Name of the non-executive director heading the committee, name and designation of compliance officer, number of shareholder’s complaints received so far, number of complaints not solved to
the satisfaction of shareholders, number of pending complaints are to be provided in the corporate governance report. The influence of such transparency on performance is studied.

**H₈: Policies and Procedure of Shareholders/Investors’ Grievance Committee affect Performance.**

Information relating general body meeting such as location and time of last three AGMs held, whether any special resolutions were passed in the previous 3 AGMs, whether any special resolutions were passed last year through postal ballot and details of voting pattern, person who conducted the postal ballot exercise, whether any special resolution is proposed to be conducted through postal ballot and procedure for postal ballot are investigated through this hypothesis.

**H₉: Policies and procedure related to General Body Meetings affects Performance.**

Clause 49(IV) (A) requires disclosure on materially significant related party transactions that may have potential conflict with the interests of the company. Details of non-compliance, penalties, strictures imposed by SEBI or any statutory authority, on any matter related to capital markets, during the last three years, whistle blower policy and affirmation that no personnel has been denied access to the audit committee and details of compliance with mandatory requirements and adoption of the non-mandatory requirements are also investigated.

**H₁₀: Disclosures on related party transactions and penalties affects Performance.**

The influence of communication on performance is analysed through information on whether quarterly financial results have been published, newspapers wherein results are normally published, any website, where the financial results are displayed, whether any presentation was made or information furnished to any business/market analyst, whether the website
displays official news releases, whether the website also displays the presentations made to institutional investors or to the analysts and was the information furnished to the respective stock exchanges.

**H11: Means of Communication Influences Performance.**

Information provided to the general shareholder and its influence on performance is studied. Disclosures on AGM: date, time and venue, financial year, date of book closure, dividend payment date, listing on stock exchanges, stock code, market price data: high, low during each month in the last financial year, performance in comparison to broad-based indices, registrar and transfer agents, share transfer system, distribution of shareholding, dematerialization of shares and liquidity, outstanding GDRs/ ADRs / warrants or any convertible instruments, conversion data and likely impact on equity, plant locations, address for correspondence are scrutinised.

**H12: General Shareholder Information Influences Performance.**

The influence of non-mandatory disclosures on performance such as benefits to non-executive directors, whether the remuneration committee determines specific remuneration packages for executive directors, whether it is composed of at least three non-executives directors and chaired by an independent director, whether all members were present at the meeting, whether the chairperson or a representative was present at the AGM, half-yearly declaration of financial performance and summary of significant events in the last six months sent to shareholders, whether the company has moved towards a regime of unqualified financial statements, training in the business model, risk profile of business parameters, responsibilities as directors and best ways to discharge them, whether performance is evaluated by peer group evaluation mechanism, mechanism for employees to report to the management unethical practices and if required direct access to the chairperson of the audit committee are the disclosures investigated in relation to performance.
**H₁₃: Non-Mandatory Disclosures Influence Performance.**

Clause 49(IV) (F) requires the management discussion and analysis report to form a part of the directors’ report or as addition thereto. Whether a certificate of compliance of code of conduct is obtained from board members and directors, whether a certificate of compliance of code of conduct is obtained from senior management personnel, whether the certificate of compliance of code of conduct is displayed on the website, brief resume of directors and senior management personnel, whether all pecuniary relationships of non-executive directors with the company are disclosed, whether all pecuniary transactions of non-executive directors with the company are disclosed, whether the certificate is certified by the CEO, whether the certificate is certified by the CFO, whether the certificate is noted at the board meeting, whether the annual report contains a report on corporate governance as a separate section, whether it states non-compliance with any mandatory requirements and reasons for non-compliance, whether it states the extent to which non-mandatory requirements in annexure 1D of Clause 49 are adopted, whether the report covers all items in annexure 1C of Clause 49, whether the compliance report was prepared for every quarter, whether the report was signed by the Compliance Officer or the Chief Executive Officer, whether a quarterly report on compliance as per Clause 49 was submitted to every stock exchange where the securities are listed within 15 days of the respective quarter, whether a certificate of compliance was obtained from its statutory auditor or company secretary, whether the certificate was attached to the board report, whether the certificate was sent to the stock exchanges along with the annual report are answers sort in this hypothesis.

**H₁₄: Other Items of Disclosures Included in the Annual Report Influences Performance.**

**Procedure for Analysis**

CGI and Performance Variables are calculated for one hundred and seventy companies in eight sectors. In order to investigate the 2nd objective, descriptive statistics, correlations and regression analysis are arrived at using SPSS 11.01.
software. The hypotheses is tested using linear multiple regression techniques at 5% significance level to analyse the relationship between Corporate Performance and Corporate Governance. To obtain such evidence, all measures of performance are regressed on CGI variables. To analysis this relationship the following Regression Models are estimated for every sector for the study period.

**Estimated Regression Models**

**Model 1:**  
ROE = \( \alpha + \beta_1 \text{MDCP} + \beta_2 \text{MDBD} + \beta_3 \text{MDAC} + \beta_4 \text{MDRM} + \beta_5 \text{MDMC} + \beta_6 \text{MDDC} + \beta_7 \text{MDRC} + \beta_8 \text{MDIG} + \beta_9 \text{MDGB} + \beta_{10} \text{MDOD} + \beta_{11} \text{MDCO} + \beta_{12} \text{MDSH} + \beta_{13} \text{NMD} + \beta_{14} \text{OID} + \varepsilon \)

**Model 2:**  
RONW = \( \alpha + \beta_1 \text{MDCP} + \beta_2 \text{MDBD} + \beta_3 \text{MDAC} + \beta_4 \text{MDRM} + \beta_5 \text{MDMC} + \beta_6 \text{MDDC} + \beta_7 \text{MDRC} + \beta_8 \text{MDIG} + \beta_9 \text{MDGB} + \beta_{10} \text{MDOD} + \beta_{11} \text{MDCO} + \beta_{12} \text{MDSH} + \beta_{13} \text{NMD} + \beta_{14} \text{OID} + \varepsilon \)

**Model 3:**  
ROCE = \( \alpha + \beta_1 \text{MDCP} + \beta_2 \text{MDBD} + \beta_3 \text{MDAC} + \beta_4 \text{MDRM} + \beta_5 \text{MDMC} + \beta_6 \text{MDDC} + \beta_7 \text{MDRC} + \beta_8 \text{MDIG} + \beta_9 \text{MDGB} + \beta_{10} \text{MDOD} + \beta_{11} \text{MDCO} + \beta_{12} \text{MDSH} + \beta_{13} \text{NMD} + \beta_{14} \text{OID} + \varepsilon \)

**Model 4:**  
ROA = \( \alpha + \beta_1 \text{MDCP} + \beta_2 \text{MDBD} + \beta_3 \text{MDAC} + \beta_4 \text{MDRM} + \beta_5 \text{MDMC} + \beta_6 \text{MDDC} + \beta_7 \text{MDRC} + \beta_8 \text{MDIG} + \beta_9 \text{MDGB} + \beta_{10} \text{MDOD} + \beta_{11} \text{MDCO} + \beta_{12} \text{MDSH} + \beta_{13} \text{NMD} + \beta_{14} \text{OID} + \varepsilon \)

Where,

ROE = Return on Equity  
RONW = Return on Net Worth  
ROCE = Return on Capital Employed  
ROA = Return on Assets  
MDCP = Companies’ Philosophy on code of Governance  
MDBD = Board of Directors
MDAC = Audit Committee
MDRM = Risk Management Committee
MDMC = Management Committee
MDDC = Directors’ Committee
MDRC = Remuneration Committee
MDIG = Shareholders/Investors’ Grievance Committee
MDGB = General Body Meetings
MDOD = Other Disclosures
MDCO = Means of Communication
MDSH = General Shareholder Information
NMD = Non-Mandatory Disclosures
OID = Other Items of Disclosures

\[ \alpha, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8, \beta_9, \beta_{10}, \beta_{11}, \beta_{12}, \beta_{13}, \beta_{14} \] are the Regression Coefficients and \( \varepsilon \) is the random term.

**Variable Notation and measures**

**Measures of Performance**

Calculation of all performance measures are as per the formulae given below.

<table>
<thead>
<tr>
<th>No</th>
<th>Dependent variables</th>
<th>Notation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Return On Equity</td>
<td>ROE</td>
<td>Ratio of earnings before depreciation, interest and tax (EBDIT) to equity capital {EBDIT/ Equity capital}</td>
</tr>
<tr>
<td>2.</td>
<td>Return On Net Worth</td>
<td>RONW</td>
<td>Ratio of earnings before depreciation, interest and tax (EBDIT) to net worth {EBDIT / Net worth}</td>
</tr>
<tr>
<td>3</td>
<td>Return On Capital Employed</td>
<td>ROCE</td>
<td>Ratio of earnings before interest and tax (EBIT) to capital employed {EBIT / Capital Employed}</td>
</tr>
<tr>
<td>4</td>
<td>Return On Assets</td>
<td>ROA</td>
<td>Ratio of earnings before interest and tax (EBIT) to total assets {EBIT / Total Assets}</td>
</tr>
</tbody>
</table>
### Measures of Corporate Governance
Calculation of Corporate Governance Measures are given below.

#### Table 2.3.5
Notations and Measures used for CGI variables

<table>
<thead>
<tr>
<th>No.</th>
<th>Independent Variables</th>
<th>Notation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Companies’ Philosophy on Governance</td>
<td>MDCP</td>
<td>Variable includes scores of Corporate Governance Code.</td>
</tr>
<tr>
<td>2</td>
<td>Board of Directors</td>
<td>MDBD</td>
<td>Variable includes scores of composition, attendance, membership and board meetings.</td>
</tr>
<tr>
<td>3</td>
<td>Audit Committee</td>
<td>MDAC</td>
<td>Variable includes scores of quorum, terms of reference, composition, attendance and audit committee meetings.</td>
</tr>
<tr>
<td>4</td>
<td>Risk Management Committee</td>
<td>MDRM</td>
<td>Variable includes scores of procedures, terms of reference, composition, attendance and risk management committee meetings.</td>
</tr>
<tr>
<td>5</td>
<td>Management Committee</td>
<td>MDMC</td>
<td>Variable includes scores of terms of reference, composition, attendance and management committee meetings are included here.</td>
</tr>
<tr>
<td>6</td>
<td>Directors Committee</td>
<td>MDDC</td>
<td>Variable includes scores of terms of reference, composition, attendance and directors’ committee meetings.</td>
</tr>
<tr>
<td>7</td>
<td>Remuneration Committee</td>
<td>MDRC</td>
<td>Variable includes scores of remuneration policy, terms of reference, composition, attendance, shares and convertible instruments held by non-executive directors.</td>
</tr>
<tr>
<td>8</td>
<td>Investors’ Grievance Committee</td>
<td>MDIG</td>
<td>Variable includes scores of purpose, share transfer agent, shareholders’ complaints and meetings.</td>
</tr>
<tr>
<td>9</td>
<td>General Body Meetings</td>
<td>MDGB</td>
<td>Variable includes scores of last three AGMs, special resolutions, postal ballot and procedures.</td>
</tr>
<tr>
<td>10</td>
<td>Other Disclosures</td>
<td>MDOD</td>
<td>Variable includes scores of related party transactions, non-compliance, penalties, Whistle Blower policy and compliance with mandatory requirements.</td>
</tr>
<tr>
<td>11</td>
<td>Means of Communication</td>
<td>MDCO</td>
<td>Variable includes scores of newspapers, website, presentation and information furnished to stock exchanges.</td>
</tr>
<tr>
<td>12</td>
<td>General Shareholder Information</td>
<td>MDSH</td>
<td>Variable includes scores of date, time and venue of AGM, financial year, book closure, and dividend payment date, listings, stock codes, market price data, performance, registrar and transfer agents, share transfer system, shareholding, dematerialization, outstanding GDRs, plant locations and address.</td>
</tr>
<tr>
<td>13</td>
<td>Non-Mandatory Disclosures</td>
<td>NMD</td>
<td>Variable includes scores of the non-mandatory disclosures such as benefits to non-executive directors, remuneration committee, half-yearly financial performance, audit qualifications, training, evaluating and whistle blower policy.</td>
</tr>
<tr>
<td>14</td>
<td>Other Items of Disclosures</td>
<td>OID</td>
<td>Variable includes scores of the management discussion report, pecuniary relationships, CEO/CFO certification, and CG report and compliance certificate.</td>
</tr>
</tbody>
</table>
Plan of the Study

The entire study has been divided into five chapters. Chapter-I presents the Concept and importance of Corporate Governance and the current literature review. Chapter-II deals with the Methodology of the study which includes Objectives, Data Collection, Research Design, Hypothesis and current literature review. Chapter-III reveals that Disclosure Practices of eight sectors like Agriculture, Capital Goods, Chemical & Petrochemical, Finance, Information Technology, Metal and Metal Products & Mining, Oil & Gas, Transport Equipments and Total Sector. Chapter-IV deals with Performance and Governance in selected eight industries and finally evaluated the impact of Corporate governance on financial Performance of all sectors. Chapter-V Presents Findings, Conclusions and Suggestions of the study.

Literature Review

An assessment by the Institute of International Finance (Corporate Governance in India, An Investor Perspective, February 2006) brings out the following features of governance practice in India.

- Corporate governance-related requirements in India are largely based on the recommendations of the Cadbury and Higgs Reports and the Sarbanes-Oxley Act. SEBI has been proactive in keeping India’s corporate governance rules and regulations in line with best practices in the world.
- The state of corporate governance in India has improved over the last four years particularly among large cap Indian companies.
- In many large Indian companies, globalization- and not regulatory requirements- has served as the impetus for adoption of corporate governance best practices.
- High market premiums that the stock of these (good corporate governance) companies command has reinforced the belief among Indian investors and, more importantly, other Indian companies that better corporate governance contributes to a high stock price and provides access to cheaper capital.
- Improvements in corporate governance in Indian companies seem largely
to be voluntary and driven by globalization. Companies that wish to access markets for capital or that wish to become leading global suppliers to corporations in developed markets are becoming governance standards. These governance changes are having a trickle-down effect on smaller Indian companies.

- Stock exchanges are viewed as being at the front line of the surveillance function for compliance with all listing requirements, including those that pertain to corporate governance.

From the year 2003 onwards CLSA and Asia Corporate Governance Network together collaborated in bringing performance scores of countries in the Asian region in regard to corporate governance. The first of the report, CG Watch 2003, had an interesting title, “Faking It: Board Games in Asia” perhaps most appropriate at that time in the background of global meltdown of stock markets brought about by severe inadequacies and abuses in corporate conduct and disclosure standards. The 2004 report had a more promising title “Spreading the Word. Changing Rules in Asia” reflecting changing landscape of the corporate governance brought out in the backdrop of Sarbanes-Oxley and a host of regulatory reforms that came into being a number of countries. The CG Watch 2005 had the title “Holy Grail: Quality at Reasonable Price(QARP) showing growing commitment towards better corporate governance. The 2007 report had a much more encouraging theme “On a Wing and a Prayer: Greening of the Governance” that brought out the significant changes in the corporate governance practice in the Asia region. The 2007 survey assessed the quality of corporate governance in 11 Asian markets that included Japan for the first time, and provided aggregate data from 582 companies in the region.

Corporate governance both in respect of policy and practice made quantum leap in India. On the policy side, India has one of the best frameworks for corporate governance. On the practice side, there is great improvement in the standards of reporting, disclosure and compliance of companies. Given more than one hundred thousand companies registered, of which about 5000 are listed; monitoring corporate governance in Indian companies is an intensely challenging task.

Good governance is required for business growth, expansion and in pursuing global aspirations. It is also important to bring in qualitative improvement in the corporate
environment in India that will induce other also to adopt best practices. Good corporate governance in big companies will be a guiding force for mid and small companies to devise effective governance frameworks that will result in further strengthening of the governance environment. The society at large as well as the stakeholders of the companies wills the biggest beneficiaries of this outcome.

In a recent assessment (September 2007)\(^3\) on the implementation standards of corporate governance on sample of about 1600 companies worldwide, Ethical Investment Research Services (EIRIS), a UK based leading global provider of independent research into the social, environmental and governance (ESG) performance of companies that tracks performance of about 3000 companies across the world, has brought out some interesting insights. These include;

- 62% of the companies studied have boards containing more than a third of independent directors. However the proportion of independent directors varies greatly between countries. Over 90% of companies in North America, UK, Switzerland, the Netherlands, Norway, Finland and Australia have more than a third of independent directors, compared with less than 10% in Germany, Austria and Japan
- Disclosure of directors’ remuneration is consistently high, with 96% of all companies disclosing this information.
- In half of the countries studied over 90% of companies separate the roles of chair and chief executive. However rates of separation are lower in the US (30%), Japan (54%) and France (56%).
- These differences are driven by the fact that companies largely adhere to their relevant national Corporate Governance guidelines.
- However corporate governance practices are converging. Governance codes are being revised to improve levels of transparency and independence, and the proportion of companies adopting western models of board structure is increasing.
- Significant improvements were evident in respect of gender empowerment and representation in the boards as also corporate social responsibility and environment.
- Increasingly, companies view equal opportunities less as a way to avoid
criticisms or lawsuits, but more as a means to build reputation and gain competitive advantage by accessing a broader skill set.

- Around 90% of companies in North America (94%), Europe (88%) and Australia/New Zealand (87%) have basic or advanced equal opportunities policies. Conversely, just over 50% of Japanese and less than 25% of companies in Asia ex-Japan meet these standards. The pattern is slightly different for equal opportunities management systems. The criterion includes disclosure of staff demographics in relation to women and ethnic minorities as well as the presence of flexible working policies. Europe and Australia/New Zealand both perform well, with around 80% and 70% respectively demonstrating at least basic systems. Performance amongst Japanese companies is also strong at 60%, whereas it is weaker amongst US companies at 25%. In the US, companies are less inclined to disclose this information, possibly due to fear of litigation.

- Worldwide, only 8.1% of board members are women. Representation of women on the board continues to be lowest in Japan at less than 1% and remains generally low in Mediterranean countries. These low levels are driven by a mixture of cultural factors including a history of fewer women in formal employment combined with weak legislative encouragement.

- The highest rate of 33% is seen in Norway where the government has enforced a quota for a minimum of 40% board members to be women by the end of 2007. The number of women on the board is set to increase Spain as the Spanish government has recently established a quota similar to that imposed in Norway.

Early discussion on the governance rose from an analysis by Berle and Means (1932) following the Great Crash in the US in 1929, which traced the problem of governance due to the separation of ownership and control. The authors recommended shareholder value over the share holder value as essential for good governance, a premise on which formal securities regulation began in the US with the setting up of the Securities and Exchange Commission (1933). This debate led the governance being associated with the agency problem (Coase, 1937), (Jensen and Meckling, 1976), (Fama and Jensen, 1983) in which the essence is the separation of ownership and control.
Agency problem refers to the difficulties financiers have in assuring that their funds are not expropriated or wasted on unattractive projects Shleifer and Vishny.\(^5\)

Early work in the corporate law development in the 18\(^{th}\) and 19\(^{th}\) centuries in Britain, Continental Europe and Russia has focused more on addressing the problem of managerial theft rather than that of shirking or even empire building.

Shleifer and Vishny cite studies on vast managerialist literature that explains how managers use their effective control rights to pursue projects that benefit them rather than investors which are described as private benefits of control {Grossman and Hart,1982}) Managers can expropriate shareholders by entrenching themselves and staying in the job even if they are no longer competent or qualified to run the firm.

A global IPO survey by Earnest and Young (E&Y)\(^6\) showed that In 2006, amount of new capital raised by global stock exchanges reached a record US$246 billion in 1729 deals. An interesting aspect of the global capital issuance is the strong share of the emerging markets. China alone raised about $57 billion with two of the largest ever share issues belonging to it; namely Industrial Commercial Bank of China and Bank of China which raised $22 bn and $11 bn respectively from the global financial markets in 2006. In 2006, India launched 78 Initial Public Offerings valued at $7.2 bn in 2007. The size of the one single issue of DLF, a real estate company was $2 bn. Emerging markets in the first five months of the year 2007 raised about $53.7 bn in global financial markets, which is considered highest ever raised in the first five months of a year.

Poor managers who resist being replaced might be the costliest manifestation of the agency problem, Jensen and Ruback.\(^7\) Agency theory considered the firm as a nexus of contracts; associating the firm and the entire group of resource contributors (the team of productive inputs) and analyzing the relationship between the principle (shareholders) and the agent (managers), the conceptual framework which is found relevant even today. This perspective has lead to a wide range of studies relating to the board of directors, share holders meetings, remuneration system for managers, the legal and accounting regulations and takeover etc.,
With the enormous growth of financial markets, the interest on corporate governance flows beyond the finance and extends to law, economic, politics, sociology and management science.

Historical developments that impact the overall scope of the corporate governance in different countries is discussed by Randall K. Morck, Lloyd Steir (2005) who observed that financial disasters tainted French confidence in financial securities early on, and set corporate governance in that country on a different parity from that of Britain, where a similar trauma was overcome and forgotten.

According to a Harvard Law School study, the disregard for shareholder rights caused lower firm valuations to the extent of 7 percent per annum and large negative abnormal returns during the 2005-2008 period; A Deutsche Bank research showed that European companies with improving governing standards outperformed a portfolio of deterioriating companies by 4.4 per annum. A joint study of the European Corporate Governance Institute and London Business School showed that the governance focused Hermes UK Focus Fund outperformed its benchmark by an average 4.8% each year from 2005 through 2008. The CLSA/ACGA Governance Score for 27 countries confirms that firms with better governance outperform significantly even in bull markets when governance usually has a lower priority with investors. All these show positive effects of the good governance A 2006 McKinsey Survey revealed that investors then were willing to pay a premium of 23% for well governed companies in India which in the recent time came down to 5 to 10 percent due to overall improvement in the governance standards.

Similarly historical trends such as imperial monopoly in China that was evident in the late 19th century, large scale trading networks belonging to particular communities and ethnic groups and sectarian groups in India, family and bank controlled pyramidal groups in Germany, Zeibatsu and Keiratsu in Japan and Chaebols in Korea etc., have influenced the process of growth of corporate governance in the respective countries. Certain features that are common to all countries that contributed to the varying types and pace of the corporate governance norms include; Accidents of history, ideas, families, business groups, trust, law, origins, evolution, transplants, large outside shareholders, financial development, politics and entrenchment, etc.
Franklin Yale and Dougles Gale\textsuperscript{11} discuss the term corporate governance that is used in two distinct ways. In Anglo-Saxon countries like the US and UK good corporate governance involves firms pursuing the interests of shareholders. In other countries like Japan, Germany and France it involves pursuing the interests of all stakeholders including employees and customers as well as shareholders.

Anglo-Saxon capitalism has been widely analyzed but stakeholder capitalism has not. The authors argue that stakeholder capitalism can often be superior when markets are not perfect and complete.

Paolo Fulghieri and Matti Suominen,\textsuperscript{12} find that the quality of the corporate governance system may have a significant impact on the economy’s level of competition and its degree of industry concentration. Poor corporate governance and low investor protection may in fact lead to high industry concentration.

Craig Doidge, G. Andrew Karolyi, and René M. Stulz\textsuperscript{13} showed that the incentives to adopt better governance mechanisms at the firm level increase with a country’s financial and economic development. Further, these incentives increase or decrease with a country’s investor protection depending on whether firm-level governance mechanisms and country-level investor protection are substitutes or complements. The study observes that when economic and financial development is poor, the incentives to improve firm-level governance are low because outside finance is expensive and the adoption of better governance mechanisms is expensive.

A cross country study by Vidhi Chhaochharia and Luc Laeven (2007)\textsuperscript{14} shows that governance provisions adopted by firms beyond those imposed by regulations and common practices among firms in the country have a strong, positive effect on firm valuation. The study showed that, despite the costs associated with improving corporate governance at the firm level, many firms choose to adopt governance provisions beyond what can be considered the norm in the country, and these improvements in corporate governance have a positive effect on firm valuation.

An Empirical analysis by Leora F. Klapper and Inessa Love (2002)\textsuperscript{15} of the World Bank showed that better corporate governance is highly correlated with better operating performance and market valuation. They provide the evidence that firm
level corporate governance provisions matter more in countries with weak legal environments. The results suggest that firms can partially compensate for ineffective laws and enforcement by establishing good corporate governance and providing credible and investor protection.

Good corporate governance commands high premium. A CLSA April 2003 study showed that over the past five years, high CG stocks (ranked in the 1st quartile) outperformed the Sensex by 169%. The out-performance was at over 40% even if one excluded the software stocks.

A study by Wolfganag Dorbetz\textsuperscript{16}, University of Basel showed that an investment strategy that bought high-CGR firms and shorted low CGR firms would have earned excess returns of 12% compared to the DAX 100 during 1998-2000. A Lipper-GMI Mutual Fund Report showed that Mutual funds that invest in companies with higher CG ratings have been rewarded with superior returns. According to a Harvard Law School study, the disregard for shareholder rights caused lower firm valuations to the extent of 7 percent per annum and large negative abnormal returns during the 1990-2003 period; A Deutsche Bank research showed that European companies with improving governing standards outperformed a portfolio of deteriorating companies by 4.4 per annum.

A joint study of the European Corporate Governance Institute and London Business School showed that the governance focused Hermes UK Focus Fund outperformed its benchmark by an average 4.8% each year from 1999 through 2004\textsuperscript{16}

The CLSA/ACGA Governance Score for 27 countries confirms that firms with better governance outperform significantly even in bull markets when governance usually has a lower priority with investors. All these show positive effects of the good governance A 2002 McKinsey Survey revealed that investors then were willing to pay a premium of 23% for well governed companies in India which in the recent time came down to 5 to 10 percent due to overall improvement in the governance standards.

Christian Leuz, Karl V. Lins, Francis E. Warnock\textsuperscript{17}, in their study using a set of foreign holdings by U.S. investors as a proxy for foreign investment that analysed a
sample of 4,411 firms from 29 emerging market and developed economies found that, foreigners invest significantly less in firms that are poorly governed, i.e., firms that have ownership structures that are more conducive to outside investor expropriation. Interestingly, this finding is not simply a matter of a country’s economic development but appears to be directly related to a country’s information rules and legal institutions. The authors argue that information problems faced by foreign investors play an important role in this result. Supporting this explanation, they argue that foreign investment is lower in firms that appear to engage in more earnings management.

An event study by Bernard Black & Vikramaditya Khanna\textsuperscript{18} showed that good corporate governance benefits faster growing firms (esp. mid sized ones) than others and cross-listed firms get the benefit more than others.

Bebchuk, L., Cohen, A., and A. Ferrell, 2008, What matters in corporate governance?, Review of Financial Studies, forthcoming\textsuperscript{19} examine how external control mechanisms are most effective in detecting corporate fraud. The authors study in depth all reported cases of corporate fraud in companies with more than 750 million dollars in assets between 1996 and 2004 and find that fraud detection does not rely on one single mechanism, but on a wide range of, often improbable, actors. Only 6% of the frauds are revealed by the SEC and 14% by the auditors. More important monitors are media (14%), industry regulators (16%), and employees (19%). Before SOX, only 35% of the cases were discovered by actors with an explicit mandate. After SOX, the performance of mandated actors improved, but still account for only slightly more than 50% of the cases.

Gillan and Stark\textsuperscript{20} define corporate governance as the system of laws, rules, and factors that control operations at a company. The paper mentions governance consisting of two aspects: Internal governance with five major categories the board of directors, managerial incentives, capital structure, bylaw and charter provisions, internal control systems where as external governance consisting of law and regulation, capital markets; analysts, auditors, private sources of external oversight such as rating, media etc. Extensive research work on each of these aspects has been conducted in the recent times.
Corporate governance varies widely across countries and across firms. Better governance enables firms to access capital markets on better terms, which is valuable for firms intending to raise funds. It is therefore expected that firms planning to access capital markets – especially those with valuable growth opportunities that cannot be financed internally – to adopt mechanisms that commit them to better governance.

With the availability of data on corporate governance and disclosure practices of individual companies around the world, provided first by the Center for International Financial Analysis and Research (CIFAR) and, more recently, by Credit Lyonnais Securities Asia (CLSA), Standard and Poor’s (S&P), and Institutional Shareholder Services (ISS), several studies have investigated whether governance and transparency scores are related to firm characteristics. In general, they find that the quality of governance practices is positively related to growth opportunities, the need for external financing, and the protection of investor rights, and this rapidly developing body of literature began with the finding that the laws that protect investors differ significantly across countries, in part because of differences in legal origins.

Recent literature finds that cross-country differences in laws and their enforcement affect ownership structure, dividend payout, availability and cost of external finance and market valuations. This is negatively related to the concentration of ownership. However, until now, the importance of other country characteristics, such as the financial and economic development of the country in which a company is domiciled, and how that importance is affected by financial globalization, has not been investigated. This is surprising since a number of studies show that other country characteristics besides measures of investor protection have a significant impact on country-level measures of governance”. “Start-up organizations are small companies that experience a high level of growth and considerable risk to their very survival until they evolve into stable, established companies. This situation presents a particular set of challenges in terms of corporate governance, yet research on the governance of start-ups is limited. This research paper examines and comments on the governance of start-up organizations in New Zealand”, Aggarwal, R., and R. Williamson, 2006.21

Bhagat, Sanjai and Bernard Black22 “the current debates on corporate governance has been "polarized" between, on the one hand, the shareholding paradigm and, on the
other hand, the stake holding paradigm. However, underpinning the main theories are hidden paradoxical assumptions that lead to concerns over the credibility and validity of this dichotomized approach. Both camps of the debate rely on a homeostatic and imitative conception of the corporation and its governance structures. Both camps suffer from an inadequate attention to the underlying philosophical presuppositions in which the static approach is rooted. To avoid the traditional trap in theorizing, an alternative process approach is proposed for a better understanding of the inherent overflow and heterogeneity of corporate governance practice.”

Tarun Khanna23 “Does corporate governance matter? Is it an important point with which politicians and economists of transition economies has to deal? Which is the model of corporate governance that will help transition economies to move towards a sustainable path of growth? Why does the economic performance of the transition economies differ and could this be due to the different types of public ownership chosen in their process of restructuring? This paper tries to provide a theoretical explanation to these questions.”

Detlev Nitsch, Mark C. Baetz24 “the proliferation of governance measurements and ranking schemes has led to an intense debate about corporate governance standards and reform. In Canada, socially responsible investment (SRI) organisations have joined the debate by including governance in their screening processes and shareholder advocacy activities. In this paper, we describe and compare the governance positions taken by SRI organizations and the more mainstream financial community. We identify areas of convergence between the two groups, and suggest why collaboration between them would be productive for governance reform”.

J.C. Gaa, S.M. Khalid Nainar, Mohamed Shehata25 “both the economic efficiency and ethical aspects of insider trading have had a great deal of attention for a number of years. This experimental study bridges the economic and ethics literature by addressing the issue of whether market participants respond only to economic factors, or whether non-economic (ethical) factors are also reflected in their behaviour. The experimental evidence indicates that subjects reacted in an economically rational fashion to the profit opportunities afforded by the possession of inside information and to the existence of a penalty. But they also tended to act in accordance with instructions not to use private information, and this behaviour appears to conflict with
the widely held economic assumption that agents in a competitive market will exploit all legal opportunities to economic gain.”

Sen Dilip Kumar26 “recent improvements in corporate governance such as SOX in the USA will not prevent the reoccurrence of corporate disasters such as Enron. The final barrier to effective corporate governance is corporate secrecy, and boards of directors working alone are unable to solve the problem. The solutions to corporate secrecy entail enhanced transparency and deterrence accompanied by elimination of the tools of corporate secrecy.”

Tarun Khanna and Palepu Krishna,27 “while most of the recent, widely publicised attention on governance failures has focused on the corporate sector, cosy boardroom ties have also undermined the viability and sustainability of many non-profit organisations. The healthcare sector of Massachusetts, dominated by non-profits, is a case in point. During the 1990s, the state's five non-profit health maintenance organisations (HMOs) each suffered major financial shortfalls. This paper presents as mini-case studies the experiences of those institutions, asking in each instance why governance structures did not do a better job of monitoring and supervising their respective managements. The findings are relevant for all non-profits, namely that governance suffers when boards are dominated by affiliated outsiders or when the allegiance of the board is not fully committed to the organisation's mission and ongoing financial viability.”

Pitabas Mohanty,28 “industrialised countries differ significantly in predominant patterns of ownership of publicly listed firms. In particular, in some countries most firms have a dominant shareholder while in other countries the ownership of a great majority of firms is dispersed; in some countries a significant proportion of shares of many firms is held by stable long-term shareholders while in others investors orientated on short-term return play a dominant role. We suggest that these cross-country differences may be explained by differences in values held by people of these countries. Using the cultural dimensions identified by Geert Hofstede as indicators of these values, we identify, theoretically, the likely effects of national cultures on ownership patterns, and test these reductions empirically. The results of the tests confirm our expectations. Differences in ownership patterns are related to differences
in values, with differences in attitude towards uncertainty proving to have the most significant impact on ownership patterns.

Dewan S.M²⁹ “the forced introduction of compliance programmes has become an integral component of regulatory enforcement strategies in the United States. They are designed to limit corporate malfeasance and misfeasance. Their use has been extended far beyond generic codes of conduct introduced to minimise corporate liability from punitive federal sentencing guidelines. It is now a federal requirement for publicly listed corporations to have a code of ethics. Any derogation must be reported to the Securities and Exchange Commission. This paper suggests that the institutionalisation of compliance in itself represents a major problem. This is because it privileges a transactional approach to ethics in which form replaces substance. The argument is developed by examining the ethical problems facing Citigroup, one of the largest financial conglomerates in the world. Despite having a code that far exceeds the industry standard, it has failed to protect the corporation from major ethical failures.”

Jayati Sarkar and Subrata Sarkar³⁰ “theoretically, corporate social responsibility should be embedded in corporate governance structures. This paper presents evidence that this is not the case for listed Indian companies. Our evidence shows that in the presence of less stringent regulatory requirements, companies tend to disclose less social information in comparison to mandatory governance information. The observed positive association between social and governance information disclosure levels provides supporting evidence that companies with more transparent governance structures tend to be socially conscientious. The paper also empirically shows that the level of social information disclosure tends to vary with the size and industrial affiliation of companies, providing further evidence that listed Indian companies are still treating social information as a tool to project a legitimate image.”

Elias Bengtsson³¹ “it has been argued amply that alternative theoretical approaches to the corporate governance phenomenon can be a valuable complement to the mainstream economic approach. However, such approaches are largely embryonic and empirical studies based on more organisationally oriented theory are few and geographically limited. The purpose of the present article is to discuss the value of organisationally oriented approaches to corporate governance as a complement to more traditional economic approaches. This is accomplished by discussing the
findings of an empirical study on Swedish shareholder activism in the light of institutional sociology. The study demonstrates how the preferences and actions of investors are institutionally determined, and not only influenced by regulation and law, but also by moral obligations, societal expectations and relational ties. Thus, the study demonstrates the value of complementing economic explanations with more institutionally and organisationally oriented accounts, in order to better understand shareholder activism in particular, and corporate governance in general.”

Jayesh Kumar32 “research and practice of Voluntary Earnings Disclosure (VED) as a strategy are limited, notwithstanding its evidenced contribution to firm value. An emerging VED profile is identified, characterised and evaluated. Firms applying it regularly provide VED between quarterly earnings announcements. This profile is compared with the prevailing approach of issuing VED when warranted by events and/or when serving firm or management ad hoc interests. These firms' VEDs are found to be more regular, frequent, timely, and often with confirming content. Their VED events, usually midquarter updates, are often prescheduled and specifically named using period-related terms. These controllable characteristics qualify it as a strategy, termed 'Period-Driven VED', in distinction from 'Event-Driven VED'. The period-driven VED strategy is found to improve a firm's information environment through a reduced information gap, measured by abnormal stock returns, lower analysts' forecast error and dispersion, and fewer surprises around earnings-release dates. The firm's improved information environment leads to lower cost of capital, as evidenced by prior theoretical and empirical research, enhancing firm value.”

Laurent Leduc33 “fiduciary duty is not restricted merely to the property of shareholders but includes ethical obligations to a wider constituency – stakeholders – in terms of power. Several approaches to corporate social responsibility (CSR) are considered in terms of their respective orientations to the external world. Robert Greenleaf's notion of "service to others" or "servant-leadership" is considered as a case of the fifth level approach to CSR. An historical perspective offers a precedent for reclaiming corporate charter grants as a means for reinstating the corporation's responsibilities to the wider community. Two propositions are offered to help us revision corporations in ways that would enable their total service obligations to all constituencies.”
Asian Development Bank34 “bottom lines and codes provide a corporation with guidelines for dealing with the inside and outside world. Bottom lines have the oldest papers through Frederic Taylor’s Scientific Management, dated beginning 20th century. Codes came into existence in its midst with the emerging sustainability agenda, referring both to technical detail and human judgement. Corporate codes present themselves as a policy document with collective rules handed down by way of a top-down approach. Since an effective code is dependent on the motivation of individual employees, this article proposes the additional view of a bottom-up approach. By sharing values in concrete work employees become co-owners of the code. Top-down and bottom-up approaches thus emerge in a complementary relationship. A relevant organisational context would be a parallel structure of action and reflection, thus facilitating balanced thinking in the sustainability domain and contributing to an 'ethical calibre' or 'moral standard' of a corporation.”

Silke Machold, Ajit Kumar Vasudevan35 “corporate governance has come to be recognised as a cornerstone of economic reforms seeking to promote stability and growth in developing countries. The Asian crisis of the 1997 was viewed as having roots in poor governance and hence national governments as well as international organisations have sought to promote a strengthening of governance mechanisms. This article investigates governance reforms in India over the last decade. The paper reviews changes in Indian governance codes that indicate a preference of adoption of Anglo-American governance models. A survey of ownership structures of Indian listed companies reveals a mixture of governance mechanisms and a persistence of the "business house model" of governance. The paper concludes that despite external pressures towards an "Anglo-Americanisation" of governance practice, the outcomes thus far reveal the emergence of a diversity of governance mechanisms arising in a path-dependent fashion.”

Abhishek Agrawal36 "this paper evaluates the validity of three theoretical paradigms in corporate governance: shareholder theory, stakeholder theory and stewardship theory. It assesses the philosophical basis of each using elements of engineering control theory, cybernetics and the political science literature. I conclude that neither shareholder nor stakeholder theory offers an effective basis for corporate governance, but that stewardship is the direction in which corporate governance practice should
evolve, if organisations are to deliver benefits to both their owners and other beneficiaries whilst not significantly harming the interests of other groups.”

Dr. Amit Mitra\textsuperscript{37} Achieving good governance in a large organisation requires a harmonisation of various activities that occur in various functional groups. Main board activity is often the key priority for corporate secretaries and compliance officers. In most big companies there are also several downstream entities that need to have the right processes and proper guidance to maintain high governance standards. Not paying attention to all the various entities can lead to governance failures and often result in damaged corporate reputations. Technology needs to be part of a total solution in building an effective governance framework. Subsidiaries need to be included in the total corporate picture when it comes to compliance activities and should be included in the corporate governance initiatives. The risk of not taking this approach is that they will either flounder or develop their own solutions which can lead to increased costs, duplication or worst, non-compliance with regulatory codes.

J.C. Gaa, S.M. Khalid Nainar, Mohamed Shehata\textsuperscript{38} Both the economic efficiency and ethical aspects of insider trading have had a great deal of attention for a number of years. This experimental study bridges the economic and ethics literature by addressing the issue of whether market participants respond only to economic factors, or whether non-economic (ethical) factors are also reflected in their behaviour. The experimental evidence indicates that subjects reacted in an economically rational fashion to the profit opportunities afforded by the possession of inside information and to the existence of a penalty. But they also tended to act in accordance with instructions not to use private information, and this behaviour appears to conflict with the widely held economic assumption that agents in a competitive market will exploit all legal opportunities to economic gain.

AmitK. Vyas\textsuperscript{39} “this paper examines the impact of corporate governance practices and structures on the performance of firms in Malaysia. An empirical study was conducted based on data involving 120 Malaysian-listed companies over a four-year period from 2006 to 2009. This period encompassed the 2007/08 Asian financial crisis, which affected most countries in the Southeast Asian region including Malaysia. Due to the combination of cross-sectional and time-series data, panel data regression techniques were used to analyse performance of the firms using both fixed effects and random
effects models. Using Return on Equity (ROE) as the dependent variable, it was established that the size of firm, gearing ratio (borrowing) and dominant CEOs (Chief Executive Officers) significantly influenced the performance of firms. The impact of size on the performance of firms followed a quadratic fashion with performance increasing with the size of the firm up to the optimal size of around 7,729 million Malaysian Ringgit (RM). Beyond that, firm performance declined with increasing size. Borrowing had a negative effect on earnings with 1% increase in borrowing having a 0.13% decrease in ROE. Finally, CEOs who are also chairman of the board exert a positive influence on company earnings. “The study suggests that dominant CEOs could increase performance of firms when they dominate the decision-making process in their companies.”

Ashok P. Ranchhod, Patricia Park⁴⁰ “with the current problems surrounding the unethical behaviour of companies and the growth in public awareness of environmental issues, it was inevitable that governments would introduce legislation covering sensible company obligations. This paper examines the issues surrounding legislation in corporate social responsibility and attempts to relate them to stakeholder management. In the long run, companies that take an active interest in such legislation will be in a particularly strong position to develop strong market positioning strategies.”

Athreya, Mrityunjay,⁴¹ “this paper evaluates the validity of three theoretical paradigms in corporate governance: shareholder theory, stakeholder theory and stewardship theory. It assesses the philosophical basis of each using elements of engineering control theory, cybernetics and the political science literature. I conclude that neither shareholder nor stakeholder theory offers an effective basis for corporate governance, but that stewardship is the direction in which corporate governance practice should evolve, if organisations are to deliver benefits to both their owners and other beneficiaries whilst not significantly harming the interests of other groups.” Bhargava⁴² “good corporate governance is good business, declares the CEO of one leading emerging market company in a Wall Street Journal op-ed. Neeraj Bhargava, head of India's WNS Global Services -- a business process outsourcing firm -- believes that by adopting international best practices he is ensuring a healthy bottom line for his company.
There are other benefits as well. By adopting such standards, firms take their place in the global corporate community, becoming better partners to do business with. International best practices also make companies more attractive to employees. The cost of good governance does not come cheaply. But says Bhargava, the benefits of adopting high standards outweigh the drawbacks as companies move toward greater efficiency, stability, and long-term growth.”

S. C. Das,43 “in the light of corporate governance standards envisaged by the recent amendments to the Companies Act, 1956, and the provisions of Sebi's revised Clause 49 of the Listing Agreement, this case study evaluates the quality of corporate governance standards and present practices in the textile, synthetics and petrochemical industry in India, based on the annual report of Reliance Industries Limited (RIL), a major Indian corporate house for the financial year 2006-2007. The study is expected to serve as a pointer to (...) the effectiveness of current corporate governance practice in RIL, in particular, and the Indian corporate sector, in general.”

Silke Machold & Ajit Kumar Vasudevan44 “Corporate governance has come to be recognised as a cornerstone of economic reforms seeking to promote stability and growth in developing countries. The Asian crisis of the 1997 was viewed as having roots in poor governance and hence national governments as well as international organisations have sought to promote a strengthening of governance mechanisms. This article investigates governance reforms in India over the last decade. The paper reviews changes in Indian governance codes that indicate a preference of adoption of Anglo-American (...) governance models. A survey of ownership structures of Indian listed companies reveals a mixture of governance mechanisms and a persistence of the "business house model" of governance. The paper concludes that despite external pressures towards an "Anglo-Americanisation" of governance practice, the outcomes thus far reveal the emergence of a diversity of governance mechanisms arising in a path-dependent fashion.”

Agarwal S. (2008)45 “This paper looks broadly at the theme of corporate governance in India. It begins with a brief analysis of the historical corporate governance model in India, including the governance structures, the banking and financial systems, ownership and control patterns, industrial policy, and industrial relations. The paper then examines how and why these various aspects of corporate governance have been
changing with processes of economic liberalization currently under way. Finally, it analyzes the consequences of changes in the model of corporate governance (...) for the country's development (e.g. increased consumer goods for middle class consumers, increased disclosure by domestic corporations, less support for corporate social programs, etc.).”

Andrew West46 “South Africa’s principal corporate governance report aspires to an ‘inclusive’ approach to corporate governance, in which companies are clearly advised to consider the interests of a variety of stakeholders. Yet, in common with many other countries, there is little discussion of the theoretical foundations and assumptions implicit in the recommended approach to corporate governance. The purpose of this article is to provide an analysis of corporate governance and the corporate environment in South Africa in terms of existing theory and models (...) of corporate governance, and to provide a critique based on a consideration of traditional African values and the socio-economic necessities of post-apartheid South Africa. The result is the identification of an incompatibility between the current corporate environment in South Africa and the given exposition of African values. Some prospects for change are then identified.”

Javed Siddiqui47 “This paper investigates the development of corporate governance regulations in emerging economies, using the case of Bangladesh. In particular, the paper considers three issues: What type of corporate governance model may be suitable for an emerging economy such as Bangladesh? What type of model has Bangladesh adopted in reality? and What has prompted such adoption? By analysing the corporate environment and corporate governance regulations, the paper finds that, like many other developing nations, Bangladesh has also adopted the Anglo-American shareholder model (...) of corporate governance. Analysis of behaviours of principal actors in the Bangladeshi corporate governance scenario, using new institutionalism as a theoretical foundation, then reveals that such adoption may be prompted by exposure to legitimacy threats rather than efficiency reasons. “

Olufemi Amao & Kenneth Amaeshi48 “Shareholder activism has been largely neglected in the few available studies on corporate governance in sub Saharan Africa. Following the recent challenges posed by the Cadbury Nigeria Plc, this paper examines shareholder activism in an evolving corporate governance institutional
context and identifies strategic opportunities associated with shareholders’ empowerment through changes in code of corporate governance and recent developments in information and communications technologies in Nigeria; especially in relation to corporate social responsibility in Nigeria. It is expected that the paper would (...) contribute to the scarce literature on corporate governance and accountability in Africa. “

Darryl Reed49 “Corporate governance reforms are occurring in countries around the globe. In developing countries, such reforms occur in a context that is primarily defined by previous attempts at promoting "development" and recent processes of economic globalization. This context has resulted in the adoption of reforms that move developing countries in the direction of an Anglo-American model of governance. The most basic questions that arise with respect to these governance reforms are what prospects they entail for traditional development goals and whether alternatives (...) should be considered. This paper offers a framework for addressing these basic questions by providing an account of: 1) previous development strategies and efforts; 2) the nature and causes of the reform processes; 3) the development potential of the reforms and concerns associated with them; 4) the (potential) responsibilities of corporate governance, including the (possible) responsibilities to promote development, and; 5) different approaches to promoting governance reforms with an eye to promoting development.”

Carla Cjm Millar, Tarek i Eldomlaty, Chong Ju Choi & Brian Hilton50 “This paper posits that differences in corporate governance structure partly result from differences in institutional arrangements linked to business systems. We developed a new international triad of business systems: the Anglo-American, the Communitarian and the Emerging system, building on the frameworks of Choi et al. (British Academy of Management (Kynoch Birmingham) 1996, Management International Review 39, 257–279, 1999). A common factor determining the success of a corporate governance structure is the extent to which it is transparent to market forces. Such (...) transparency is more than pure financial transparency; as it can also be based on factors such as governmental, banking and other types of institutional transparency mechanism. There may also be a choice for firms to adopt voluntary corporate disclosure in situations where mandatory disclosure is not established. The Asian
financial crisis of 1997–1999 and the more recent corporate governance scandals such as Enron, Andersen and Worldcom in the United States and Ahold and Parmalat in Europe show that corporate governance and business ethics issues exist throughout the world. As an illustration we focus on Asia’s emerging markets, as, both in view of the pressure of globalization and taking into account the institutional arrangements peculiar to the emerging business system, these issues are important there. Particularly for those who have to find an accommodation between the corporate governance structures and disclosure standards of the Emerging system and those of the Anglo-American and Communitarian systems.”

Alexander Brink51 “While much has been written on specificity (e.g., in texts on new institutional economics, agency theory, and team production theory), there are still some insights to be learnt by business ethicists. This article approaches the issue from the perspective of team production, and will propose a new form of corporate governance: enlightened corporate governance, which takes into consideration the specific investments of employees. The article argues that, in addition to shareholders, employees also bear a residual risk which arises due to (...) their specific investments. This residual risk presents a valid and legitimate basis for residual claims. In this way, employees can be seen as residual claimants due to the fact that their income depends upon a hazardous quasi rent. Therefore, this article will call on the fiduciary duty of board members to protect those employees who are exposed to such residual risks and may thus be vulnerable as a result. This leads to a fundamental change of perspective on the “theory of the firm” – a change which will adopt the theories of new institutional economics, agency theory, and team production theory in order to promote business ethics research. Against this background, enlightened corporate governance aims to follow the criterion of specific investments as a legitimate basis for residual claims. Furthermore, it seeks to understand the consequences for board members, and to promote the sharing of control and ownership. The article will close with some discussion of the implications and future prospects for business ethics.”

Roberto García-Castro, Miguel A. Ariño, Miguel A. Rodriguez & Silvia Ayuso (2008)52 “Corporate governance (CG) can be seen to operate through a 'double agency' relationship: one between the shareholders and corporate management, and another between the corporate management and the firm's employees. The CG and
labour management of firms are closely related. A particularly productive way to study how CG affects and is affected by the employment relationship has been to compare CG across countries. The contributions of this paper to that literature are threefold. (1) An integration of aspects of the labour (...) management literature in the CG debate. (2) Based on a sample of about 1000 firms from 31 countries, we find evidence of complementarities between the CG and the labour management of firms. Extreme cases, in general, outperform mixed cases. (3) Firm differences within countries are more important than scholars have assumed so far. We present the results of the study and implications for future research and for practice.”

Miriam F. Weismann (2009)53 “The American regulatory model of corporate governance rests on the theory of self-regulation as the most effective and efficient means to achieve corporate self-restraint in the marketplace. However, that model fails to achieve regular compliance with baseline ethical and legal behaviors as evidenced by a century of repeated corporate debacles, the most recent being Enron, WorldCom, and Refco. Seemingly impervious to its domestic failure, Congress imprinted the same self-regulation paradigm on legislation restraining global business behavior, the Foreign Corrupt Practices Act. This (...) anti-bribery initiative prohibits unethical and illegal payments made to foreign public officials in an effort to eradicate bribery as a rational-choice global market entry strategy. However, this paper illustrates, using newly complied statistics from 1977 to 2008, that the FCPA has not had a dramatic impact on U.S. global corporate behavior despite its recent high profile coverage and the tough regulatory rhetoric about corporate compliance. The paper also extends the prior Cragg and Woof FCPA efficiency study and provides current empirical evidence to resolve several unanswered questions raised by that earlier study.”

O. Scott Stovall, John D. Neill & David Perkins (2008)54 “Proponents of the dominant contemporary model of corporate governance maintain that the shareholder is the primary constituent of the firm. The responsibility for managerial decision makers in this governance system is to maximize shareholder wealth. Neoclassical economists ethically justify this objective with their interpretation of Adam Smith's notion of the Invisible Hand. Using a famous quotation from The Wealth of Nations, they interpret the Invisible Hand as Smith's (An Inquiry into the Nature and Causes of the Wealth of
Nations, Methuen (...) & Co., London) assertion that market participants, in pursuing their own self-interests without regard to the interests of others, will collectively provide the optimal economic benefit to society. We argue that the traditional interpretation of Smith is too narrow and potentially harmful to society. In order to fully understand Smith's notion of the influence of the Invisible Hand on human behavior, one must also consider The Theory of Moral Sentiments. In that work, Smith (The Theory of Moral Sentiments, A. Millar, London) portrays the pursuit of self-interest as only one of several potential motivations for human action. He also acknowledged the existence of a “sympathy principle,” which refers to the ability and propensity of human beings to consider the interests of others. Heilbroner (The Essential Adam Smith, W.W. Norton, New York, p. 59) suggests that Smith's sympathy principle allows one to “determine the appropriate degree of self-interest, the proper display of benevolence, the desirable strictness of justice.” In fact, Smith indicates that (1) a society whose members pursue self-interest without a sense of justice will eventually collapse; (2) a society whose members pursue self-interest checked by their sense of justice alone will survive; (3) a society whose members pursue self-interest, justice, and the interests of others will flourish. Since a more complete reading of Smith indicates that human beings, in considering their own interests, also reflexively consider the interests of others when making decisions, then the traditional corporate governance model appears to be lacking. A broader, multiple stakeholder approach to corporate governance that considers the interests of other constituencies may be more consistent with Smith's views. In particular, Smith's sympathy principle provides a theoretical foundation for a shift away from the narrow, yet dominant, shareholder-based corporate governance model and toward multiple stakeholder models of corporate governance.

Reddy, Y. V (2008)55 “Recent corporate scandals in the USA forced regulatory change and brought the governance dialogue to new heights and domains. In an attempt to strengthen understanding of the role of governance in the nonprofit organisational setting, this manuscript reviews theoretical directions and practical approaches to corporate governance and discusses the applicability of these factors to nonprofit organisations. Instead of examining inter-organisational relationships, the focus is on the governance dimensions that inform stakeholders of the general operations and
performance of nonprofits. It is (...) relevant to developed countries where there is a strong presence of nonprofit organisations operating.”


“Recent research has linked the reduction of abnormal accruals to corporate governance metrics. The results of these studies, however, are based on samples taken from periods prior to promulgated board independence requirements. In other words, during this time period, management not only had discretion over accounting accruals, but also significant influence over the choice of membership on the board of directors. This study suggests that ethical management practices may be a correlated omitted variable in these studies, thus resulting in causal (...) inference problems in the previous research. We argue that, rather than the board of directors monitoring and reducing abnormal accruals as has been posited, management who was not engaging in abusive earnings management was attempting to signal the market regarding the quality of the firm’s financial information through its choice of board membership.”

Conceptualizing what is possible, even if it is an academic exercise to begin with, has been discouraged. Rao & Saha

examined the nature of the effect of ownership on corporate performance. It was observed that for any given distribution of shareholding the exercise of control is necessitated by the frequent changes in the environment and constant exchanges in the deployment of productive assets. The only form of ownership, which has some positive effect on corporate performance, is the shareholding of the directors and their relatives.

Rastogi & Rao (2009)

also investigated the reasons for the shareholders and/ or the board of directors keeping corporate control if ownership is not the decisive determinant. The noted that the board might experience:

- Inadequate information with respect to the market conditions external to the firms or distinctive capabilities of the organization.
- Constraints in devising organizational structures to implement their strategies.
- If these risks are sufficiently low, the board keeps control. When the risks increase the optimal arrangement is to delegate the decisions to the management. However, there is a necessity to ensure that
• Decisions made are commensurate with the organizational capabilities execute them.
• Efficiency is maintained at the operational level, i.e., make the management work for the shareholder’s objectives.

The question of the fiduciary responsibilities of the board of directors, their performance, and the ability to bring the errant director to law then become significant issues. Under the existing legal framework, the board of directors is expected to counterbalance the management and make sure that the company and the minority shareholders are not subjected to losses. In general, the non-executive directors have a fiduciary role in their specialized areas of expertise and can act only on the basis of information provided by the management Abrham & Bhade, 2008.

Mishra suggests that the number of the non-executive directors should be at least two-thirds of the board to ensure that the promoters and the managers can be kept in check. It appears, however, that the more significant problems are that the same directors serve on too many boards. As a result, they pay inadequate attention to their duties.

The laws regarding the empowerment of the board and their responsibilities are also extensive. The board has the power to approve decisions with respect to:

• Diversification of business
• Mergers and reconstruction
• Takeover of companies
• Buy back of shares

In general, the mechanisms of corporate governance have been defined elaborately to ensure value maximization. However, the task before the enforcement agencies is gigantic, their expertise did not keep pace with requirement and the law enforcement is slow and effective corporate mismanagement is perpetuated as result. TVS Rammomohan Rao explains the Indian scene which reflects the following trend.
The experience with the managing agency system and the embedded corrupt practices are continuing. The role of the business houses and promoters of corporate entities leaves a lot to be desired.

The average shareholders do not have much expertise and they are being exposed to the risks of dealing with the corporate in a big way only recently. Hopefully they will be wiser very soon. In one sense the development of mutual funds and a host of debt instruments is unhealthy because the prospect of fostering democratic discipline in equity markets is getting delayed.

The pace of change over the past decade is disproportionate to the capabilities of the managers, experts who serve on the boards, and the law enforcement agencies.

The academic community has to systematically examine the ground realities, consequences of different governance mechanism and articulate suitable alternatives.

Several research studies have been conducted to know the effectiveness of the board system in India. A research study title “Board Room Practices in India” conducted by Dr. C.L. Bansal is worth mentioning. He examined the structure, composition and functioning pattern of corporate Boards of 100 corporate leaders and the process of historical evolution of Board management system in India. The major findings of the study were the shift from the family board to the professional boards and also most of its findings are similar to that of Cadbury Report of 1992.

The main findings of his study are:

- The evolution of Board of directors as top most governing organ was sudden, supr imposed and through a legal system.
- Corporate leaders adopted practices relating to composition and structure of the Board conforming to the corporate practices prevailing in advanced countries.
- The study revised a diversified shareholding pattern varying from minimum of 100 shares and a maximum of 10 lakhs shares. A generalization however is difficult to the existence of substantially large share holdings by the institutional investors.
• The relative importance of a director does not depend on the number of directorships he holds; rather it depends on the gross value of assets of each such company and the number of directors on its boards.

• The experience possessed by the directors directly contributes to the effectiveness of the board. An analysis of experience pattern of the boards of corporate leaders reveals that the time span of total experience of a large majority of directors falls in the range of 16 to 40 years. A substantially large number of directors have spent almost their entire lifetime in the same company.

• In general, the representation of the traditional business houses on the board in their respective companies had found to be quite high.

• On the whole, the boards have been found to be non-executive in their composition.

Yet, Gupta’s 2007\textsuperscript{63} survey of the early 2000 found that the nominee directors presence had brought about some formality and openness to board practices. He says:

“Before 1991, many companies did not observe even the elementary conventions such as sending notices of meetings and agenda to the board members in advance, bringing all important matters before the board, furnishing the annual operating budgets and periodic reports on performance to the directors, allowing proper discussion at board meetings etc,. It was not uncommon experience even in well-established companies board meetings were brief-lasting less than 20 minutes. Boards were neither involved in supervision of management nor in decision-making but simply in fulfilling a legal responsibility. This is changing under the influence of public financial institutions and their nominee directors, for although there is still a long way to go to secure board effectiveness in the real sense, the outer discipline in board functioning, i.e., observance of proper procedures, has distinctly improved.”

Business today\textsuperscript{64} published a survey of Indian family business houses. Some of the important points stated there are:

1. A few Indian houses are showing the highest standards in their dealings.

On the other hand, company management with poor integrity is not
changing despite all the talk. For them discussing corporate governance is just actively participating in discussions and interviews.

2. Mutual trust amongst the senior managers is very low.
3. Family owned companies are the least preferred employers
4. Career development is uncertain in family owned companies.
5. The level of transparency in business houses is below average.
6. The level of stability is very high in family business
7. A very high percentage of respondents think that family business houses are less ethical.

Despite high level of stability, family owned business houses are not very highly preferred by employees.

Mr. N.R. Narayana Murthy 2008 observes “Corporate Governance is not be measured merely in terms of stock market valuations. For me corporate governance is a mind set, a question of value systems. It a way of saying that I put public good ahead of private good, of not using the corporation’s resources for personal benefit”.

Mr S.H. Khan former Chairman of IDBI quoted a study on corporate governance of 30 companies which could that companies with low promoter shareholding and chairman from outside the promoter group were having more effective corporate governance practices and the presence of outside directors said to have helped corporate performance. Sir Adrian Cadbury in a seminar advised Indian business leader not to import systems of corporate governance but to adopt international recognized principles to suit the country’s requirements because governance systems are not exportable.

Speaking at the seminar, Mr. Rahul Bajaj Chairman of task force CII pinpointed the root social malaise that has to be overcome “Many family owned companies have several executive directors. Does it mean they are best managed? Of course it is unholy club. “Speaking at a seminar at Mumbai , he said, “All of us know what we should not do. We have done things that are legal, but questionable. Why should we need a committee to tell us what to do?
T.N. Pandey\textsuperscript{69} quotes the findings of the first Indian corporate governance survey conducted by Egon Zehnder Internationa in December, 1996. The point highlighted by them is that the posts of Chairman and Managing Director are not separate. Their key findings regarding boards effectiveness are:

<table>
<thead>
<tr>
<th>Service/Quality</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide outside/past experience/wisdom</td>
<td>89%</td>
</tr>
<tr>
<td>Checks and balance by executive directors</td>
<td>79%</td>
</tr>
<tr>
<td>Offers independent/objective view</td>
<td>38%</td>
</tr>
<tr>
<td>Check/advice/on strategic planning</td>
<td>34%</td>
</tr>
<tr>
<td>Represent interest of shareholders</td>
<td>19%</td>
</tr>
</tbody>
</table>

The corporate governance survey of Egon Zehender International brought forth the following response about the influence of non-executive directors.

<table>
<thead>
<tr>
<th>Influence</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too much influence in board decisions</td>
<td>1.5%</td>
</tr>
<tr>
<td>Too little influence</td>
<td>82.25%</td>
</tr>
<tr>
<td>About the right amount of influence</td>
<td>11.29%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

\textbf{Pitabas Mohanty}\textsuperscript{70} “industrialised countries differ significantly in predominant patterns of ownership of publicly listed firms. In particular, in some countries most firms have a dominant shareholder while in other countries the ownership of a great majority of firms is dispersed; in some countries a significant proportion of shares of many firms is held by stable long-term shareholders while in others investors orientated on short-term return play a dominant role. We suggest that these cross-country differences may be explained by differences in values held by people of these countries. Using the cultural dimensions identified by Geert Hofstede as indicators of these values, we identify, theoretically, the likely effects of national cultures on ownership patterns, and test these predictions empirically. The results of the tests confirm our expectations. Differences in ownership patterns are related to differences in values, with differences in attitude towards uncertainty proving to have the most significant impact on ownership patterns. “

\textbf{Tarun Khanna}\textsuperscript{71} “Does corporate governance matter? Is it an important point with which politicians and economists of transition economies has to deal? Which is the model of corporate governance that will help transition economies to move towards a sustainable path of growth? Why does the economic performance of the transition economies differ and could this be due to the different types of public ownership
chosen in their process of restructuring? This paper tries to provide a theoretical explanation to these questions.”

Dewan S.M²¹ “the forced introduction of compliance programmes has become an integral component of regulatory enforcement strategies in the United States. They are designed to limit corporate malfeasance and misfeasance. Their use has been extended far beyond generic codes of conduct introduced to minimise corporate liability from punitive federal sentencing guidelines. It is now a federal requirement for publicly listed corporations to have a code of ethics. Any derogation must be reported to the Securities and Exchange Commission. This paper suggests that the institutionalisation of compliance in itself represents a major problem. This is because it privileges a transactional approach to ethics in which form replaces substance. The argument is developed by examining the ethical problems facing Citigroup, one of the largest financial conglomerates in the world. Despite having a code that far exceeds the industry standard, it has failed to protect the corporation from major ethical failures.”

Silke Machold, Ajit Kumar Vasudevan⁷³ “corporate governance has come to be recognised as a cornerstone of economic reforms seeking to promote stability and growth in developing countries. The Asian crisis of the 1997 was viewed as having roots in poor governance and hence national governments as well as international organisations have sought to promote a strengthening of governance mechanisms. This article investigates governance reforms in India over the last decade. The paper reviews changes in Indian governance codes that indicate a preference of adoption of Anglo-American governance models. A survey of ownership structures of Indian listed companies reveals a mixture of governance mechanisms and a persistence of the "business house model" of governance. The paper concludes that despite external pressures towards an "Anglo-Americanisation" of governance practice, the outcomes thus far reveal the emergence of a diversity of governance mechanisms arising in a path-dependent fashion.”

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- In general, the representation of the traditional business houses on the board in their respective companies had found to be quite high.
On the whole, the boards have been found to be non-executive in their composition.

Gupta (2005) traces out the corporate governance practices in three automobile companies in India i.e. (i) Hero Honda Limited (ii) Maruti Udyog Limited (iii) Escort Limited and their deviation from the norms laid down by clause 49 of the listing agreement. The data is collected from annual reports for the period 2004-05. No sophisticated statistical tools are used for the purpose of analysis. The findings suggest that the companies under study are applying corporate governance practices in managing the affairs of their business. It asserts that the board of directors should uphold the principles of transparency, fairness and accountability.

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10. Family owned companies are the least preferred employers.

11. Career development is uncertain in family owned companies.

12. The level of transparency in business houses is below average.

13. The level of stability is very high in family business.

14. A very high percentage of respondents think that family business houses are less ethical.

Despite high level of stability, family owned business houses are not very highly preferred by employees.

Poor managers who resist being replaced might be the costliest manifestation of the agency problem, Jensen and Ruback, 2006. Agency theory considered the firm as a nexus of contracts; associating the firm and the entire group of resource contributors (the team of productive inputs) and analyzing the relationship between the principle
(shareholders) and the agent (managers), the conceptual framework which is found relevant even today. This perspective has lead to a wide range of studies relating to the board of directors, share holders meetings, remuneration system for managers, the legal and accounting regulations and takeover etc.,

With the enormous growth of financial markets, the interest on corporate governance flows beyond the finance and extends to law, economic, politics, sociology and management science.

Christian Leuz, Karl V. Lins, Francis E. Warnock\textsuperscript{82}, in their study using a set of foreign holdings by U.S. investors as a proxy for foreign investment that analysed a sample of 4,411 firms from 29 emerging market and developed economies found that, foreigners invest significantly less in firms that are poorly governed, i.e., firms that have ownership structures that are more conducive to outside investor expropriation. Interestingly, this finding is not simply a matter of a country’s economic development but appears to be directly related to a country’s information rules and legal institutions. The authors argue that information problems faced by foreign investors play an important role in this result. Supporting this explanation, they argue that foreign investment is lower in firms that appear to engage in more earnings management.

Jayesh Kumar\textsuperscript{83} “Research and Practice of Voluntary Earnings Disclosure (VED) as a strategy are limited, notwithstanding its evidenced contribution to firm value. An emerging VED profile is identified, characterised and evaluated. Firms applying it regularly provide VED between quarterly earnings announcements. This profile is compared with the prevailing approach of issuing VED when warranted by events and/or when serving firm or management ad hoc interests. These firms' VEDs are found to be more regular, frequent, timely, and often with confirming content. Their VED events, usually midquarter updates, are often prescheduled and specifically named using period-related terms. These controllable characteristics qualify it as a strategy, termed 'Period-Driven VED', in distinction from 'Event-Driven VED'. The period-driven VED strategy is found to improve a firm's information environment through a reduced information gap, measured by abnormal stock returns, lower analysts' forecast error and dispersion, and fewer surprises around earnings-release
dates. The firm's improved information environment leads to lower cost of capital, as evidenced by prior theoretical and empirical research, enhancing firm value.”

**AmitK. Vyas**

“This paper examines the impact of corporate governance practices and structures on the performance of firms in Malaysia. An empirical study was conducted based on data involving 120 Malaysian-listed companies over a four-year period from 2006 to 2009. This period encompassed the 2007/08 Asian financial crisis, which affected most countries in the Southeast Asian region including Malaysia. Due to the combination of cross-sectional and time-series data, panel data regression techniques were used to analyse performance of the firms using both fixed effects and random effects models. Using Return on Equity (ROE) as the dependent variable, it was established that the size of firm, gearing ratio (borrowing) and dominant CEOs (Chief Executive Officers) significantly influenced the performance of firms. The impact of size on the performance of firms followed a quadratic fashion with performance increasing with the size of the firm up to the optimal size of around 7,729 million Malaysian Ringgit (RM). Beyond that, firm performance declined with increasing size. Borrowing had a negative effect on earnings with 1% increase in borrowing having a 0.13% decrease in ROE. Finally, CEOs who are also chairman of the board exert a positive influence on company earnings. “The study suggests that dominant CEOs could increase performance of firms when they dominate the decision-making process in their companies.”

**Bhargava**

“good corporate governance is good business, declares the CEO of one leading emerging market company in a Wall Street Journal op-ed. Neeraj Bhargava, head of India's WNS Global Services -- a business process outsourcing firm -- believes that by adopting international best practices he is ensuring a healthy bottom line for his company.

There are other benefits as well. By adopting such standards, firms take their place in the global corporate community, becoming better partners to do business with. International best practices also make companies more attractive to employees. The cost of good governance does not come cheaply. But says Bhargava, the benefits of adopting high standards outweigh the drawbacks as companies move toward greater efficiency, stability, and long-term growth.”
S. C. Das\textsuperscript{86} “in the light of corporate governance standards envisaged by the recent amendments to the Companies Act, 1956, and the provisions of Sebi's revised Clause 49 of the Listing Agreement, this case study evaluates the quality of corporate governance standards and present practices in the textile, synthetics and petrochemical industry in India, based on the annual report of Reliance Industries Limited (RIL), a major Indian corporate house for the financial year 2006-2007. The study is expected to serve as a pointer to (...) the effectiveness of current corporate governance practice in RIL, in particular, and the Indian corporate sector, in general.”

Mishra\textsuperscript{87} suggest that the number of the non-executive directors should be at least two thirds of the board to ensure that the promoters and the managers can be kept in check. It appears, however, that the more significant problems are that the same directors serve on too many boards. As result, they pay inadequate attention of their duties. The laws regarding the empowerment of the board and their responsibilities are also extensive. The board has the power to approve decisions with respect to:

- Diversification of business
- Mergers and reconstruction
- Takeover of companies
- Buy back of shares

In general, the mechanisms of corporate governance have been defined elaborately to ensure value maximization. However, the task before the enforcement agencies is gigantic, their expertise did not keep pace with requirement and the law enforcement is slow and effective corporate mismanagement is perpetuated as result. TVS Rammomohan Rao\textsuperscript{88} explains the Indian scene which reflects the following trend.

- The experience with the managing agency system and the embedded corrupt practices are continuing. The role of the business houses and promoters of corporate entities leaves a a lot to be desired.
- The average shareholders do not have much expertise and they are being exposed to the risks of dealing with the corporate in a big way only recently. Hopefully they will be wiser very soon. In one sense the development of mutual funds and a host of debt instruments is unhealthy because the prospect of fostering democratic discipline in equity markets is getting delayed.
• The pace of change over the past decade is disproportionate to the capabilities of the managers, experts who serve on the boards, and the law enforcements agencies.

The academic community has to systematically examine the ground realities, consequences of different governance mechanism and articulate suitable alternatives.

**Graham et.al.(2004)** surveyed 401 financial executives using data from NYSE and NASDAQ. The study was conducted in New York City in 2003. Comparison is based on variables such as sales, debt-to-assets, and dividend yield, earnings per share, credit rating, book-to-market and price -earnings ratio. Average, median and Pearson Correlation Coefficients are used for analysis. It is found that managers make voluntary disclosures to reduce information risk associated with their stock but try to avoid setting a disclosure precedent that will be difficult to maintain.

**Anderson (2005)** examines annual reports from corporations listed on the Stockholm stock exchange to develop a Corporate Governance disclosure index and to measure 15 characteristics, derived from the agency theory and two control variables. The data is analyzed in SPSS, using both linear and multiple regressions. The analysis shows that role duality actually measure if a corporation has a foreign parent company. Therefore, it is possible to conclude that corporations are influenced by the origin of the parent company and the size of the corporation to disclose corporate governance information.

**Scarborough (2003)** uses corporations listed on the New York stock exchange, NASDAQ, and the American stock exchange and a sample of companies whose corporate secretaries are members of the American society of corporate secretaries. Survey data from 135 corporate secretaries and data from Compustat are used. Multiple regression analyses are used to test the hypothesized relationships between board attributes and firm performance.

The antecedents of board activism: directors' knowledge domains, independence, and effort norms, and the moderating effects of duality are used as variables. Findings suggest that there is a consistent and practically significant relationship between board attributes and firm performance.
Oriesek (2004) uses a self-administered questionnaire, sent out to the CEOs of 32 US companies. The period of study is 2001-02 and the selection of companies was based on RQ ranking. Findings suggest that the components of the organizational structure, leadership structures at the top level and resource allocation decisions affect corporate reputation.

Webb (2003) uses a sample of 394 socially responsible firms and 394 non-socially responsible firms in the Domini social index (DSI) as of Nov 2001. Univariate and multivariate analyses are used to test hypothesis that socially responsible boards are stronger than non-socially responsible boards. Logistic regression is used to examine the relations between firm type and board structure. It is observed that the socially responsible firms have characteristic associated with effective board structures. They have a larger proportion of outsiders and women on the board and are less likely to have a CEO who is also the chairman of the board.

Fich (2005) analysis 1,493 first-time director appointments at 432 U.S. companies to Fortune 1000 boards during 1997-99, to investigate whether certain outside directors are better than others. The data is collected from annual reports, centre for research on security prices (CRSP) and Compustat. Mean, median, standard deviation, correlations, t-test, Wilcox on rank-sum tests, multiple regression analysis, univariate analysis and multivariate analysis are used. The control variables are board characteristics and sales.

The study concludes that reactions to director appointment are higher when appointees are CEOs of other companies than when they are not. CEOs are more likely to obtain outside directorships when the companies they head perform well. Well-performing CEOs are also more likely to gain directorships in organizations with growth opportunities. CEOs are sought as outside directors to enhance firm value.

Arora et.al. (2005) analysis the Corporate Governance system in five housing finance companies (HFC's) namely: Housing development and Finance Corporation (HDFC), ICICI home finance limited, LIC home finance limited, GIC home finance limited, and BHW Birla home finance limited. The authors compare (I) The Company's philosophy (II) Composition of The board (III) Various committees and
(IV) Reporting of these companies. The analysis is based on the corporate governance reports of all five companies for the year 2004-05. The study which is conducted in India concludes that there is a dire need to create a more standardized performs for writing corporate governance report of company and to create an efficient communication channel to reach the stakeholders.

**Gupta et.al. (2006)** based on content analysis, this paper examines Corporate Governance reporting by thirty Indian companies, which form the BSE Sensex as on 26th May 2003. The annual reports for the year 2006-2007 are used for analysis. The corporate governance section is extracted either from the annual reports downloaded from the company's website or from prowess database of CMIE. Using the regulation of securities and exchange of board of India, the findings indicate- that though the firms are providing information related to all the nine dimensions of corporate governance reporting, yet a deeper analysis indicates that the disclosures are still inconclusive. Using ordinary least squares regression method, the significant determinants of disclosures are size of the company, number of independent directors and overseas listing status.

**Panchali (1999)** investigates the relationship between ownership structure and financial performance on the basis of accounting variables. The data of 990 publicly traded Indian firms is obtained from CIMM database for period of six years form 1990-1995. Ownership structure is analyzed through shareholding pattern and performance is analyzed from two aspects i.e. growth in terms of gross fixed assets, sales and profit after tax and second profitability (profit before depreciation, interest and taxes PBDIT). Techniques of coefficient of correlation, regression coefficient and ordinary least square (OLS) regression analysis are used for interpretation. The study suggests that there is a relationship between ownership structure and financial performance but with mixed evidences. The ownership of corporate bodies shows consistently positive relationship with profitability, while FI’s equity holdings show positive relationship with asset creation.

**Kakani et.al (2005)** uses financial statement and capital market data of 566 large Indian firms listed either with BSE or NSE, having an average market capitalization of more than Rs. one crore. The period of study is eight years divided into two sub-periods Viz. 1992-96 and 1996-2000. The study focuses on the financial performance
across dimensions such as shareholders value, accounting profitability and its components, growth and the risk of the sample firms. The financial statement and capital market data are obtained from CMIE prowess database and capitaline database. Econometric analysis is done in SPSS version. Techniques are Pearson correlation Matrix and linear multiple regression coefficients. The study reveals that the determinants of market based performance measures and the accounting-based performance measures differ due to influence of capital market conditions. Size, marketing expenditure, and international diversification had a positive relation with a firm's market valuation.

Mohanty (2005) Studies a sample of 113 non-finance companies from prowess database for the period from April 1998 to March 2000 using corporate governance index containing nineteen measures. Simple OLS regression is used to observe the relationship between financial performance and institutional stake. Simultaneous equation method is used to find out whether the institutional investors have invested in companies with good governance practices. Findings reveal that corporate governance index is positively associated with financial performance. Development financial institutions have lent money to companies with better corporate governance measures. Mutual funds have invested money in companies with better corporate governance record. The positive association is because the mutual funds and development financial institutions have invested/lent money in companies with good governance records and their investment has caused the financial performance of the companies to improve.

Kathuria et.al.(1999) examines the association between board size and corporate financial performance using CIMM database for the year 1994-95 of 504 corporations belonging to 18 industries in India. Profitability is calculated as the return on assets. Mean standard deviation and estimated coefficients are used in the analysis. The results suggest that the size of the board plays an important role in influencing the financial performance of corporations. Performance improves if the board size increases, but the contribution of an additional board member decreases as the size of the corporation increases.
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