CHAPTER 1
INTRODUCTION

1.0 Background of the Study

Chapter 1 reviews the basic concepts of corporate governance with different definitions, and an emphasis has been laid upon studying the historical practice in corporate governance, internationally and in India. The researcher has also elaborated the need and importance of corporate governance in the Indian financial sector, specifically in the banking sector. An overview of corporate governance disclosure practices and code of best practices has been elaborated along with various cases of corporate frauds reported nationally and internationally. After reviewing the details mentioned above, the researcher has stated the objectives, scope and need for the study.

1.1 The Concept of Corporate Governance

An organization is a congregation of diverse stakeholders such as employees, creditors, customers, investors, government and, in fact, the entire society. The primary objective of an organization is to create wealth and generate high returns for its stakeholders; this especially applies to the shareholders and investors who have provided funds. Due to globalization, organizations are in a constant need for generating funds for their growth and expansion, to facilitate which it becomes imperative for them to boost investors’ confidence and credibility in the organization. Therefore, organizations across the globe felt the need of inculcating adequate transparency and accountability with the help of proper governance and disclosure practices. Several suggestions have been recommended and implemented in inculcating corporate governance practices within the organizations.

In recent times, corporate governance has been globally accepted for its clear focus on ensuring that the interests of all the stakeholders of an organization are protected. One
of the principle objectives of corporate governance is to ensure accountability of individuals in an organization. Corporate governance includes the processes, customs, policies and laws controlling the way an organization is directed, administered and controlled. It can be termed as a system of structuring, operating and controlling a company with a view of achieving long-term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the mandatory legal and regulatory statutes; environmental and local community needs are also taken care of.

1.2 Governance Concept in India is Centuries Old

The concept of governance is not new to India. In our ancient scriptures and manuscripts, the importance of governance is quite well-defined. According to Shamasantra (1960), the concept of effective governance can be traced back to the Hindu religious text of Ramayana (a story of Lord Rama that depicts the duties of the ideal father, the ideal servant, the ideal wife and the ideal king); herein it is clearly defined that “the maximum happiness for the maximum number of people for the maximum period, is based on the principles of dharma – righteousness and moral values.” - Ayodhya Kand.

Governance is also defined in the Upanishads (collection of texts, which contains some of the central philosophical concepts of leading a happy life). Particularly apt is the sholka from the Taittariya Upanishad - “Satyam Vada Dharmam Chara,” which translates into “Forever speak the truth and follow the dharma.”

Kautilya's Arthashastra states that good governance implies all administrators, including the king, are to be considered servants of the people. Kautilya has also given ‘Kautilya’s fourfold duties of a king,’ which holds good even in today's world; these are Raksha (safeguarding the interest of the stakeholders), Vridhhi (ensuring growth), Palana (complying with the law and ensuring effective management) and Yogakshema (providing social security and contributing towards corporate social responsibility).

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1 http://www.jubileeaustralia.org/page/about/Jubilee%20Hindu%20Perspectives.pdf
Above evidence reveals that governance has always been imperative for the kings and the rulers in historical times, and it is lucid enough that organizations in the 21st century must find it a sheer necessity.

1.3 The Need of Corporate Governance

Corporate governance is required in every organization for sustainable growth and to ensure that the rights of all the stakeholders are safeguarded - in fact, it acts as a guiding force for the organization. The concept of corporate governance clearly outlays the roles and responsibilities of each stakeholder in discharging their duties with complete accountability and integrity. The focus of corporate governance practices is not only confined to the interests of its stakeholders but also emphasizes the society’s interest at large.

Dedicated research has revealed that an organization which follows effective corporate governance will always provide high returns on equity, greater customer satisfaction, and repeat sales, thus, ensuring higher profits. **Boone, Breach and Friedman (2000)**, in their research article, emphasized that corporate governance has received special attention all over the world after scandals at the Enron Corporation (USA), Adelphia Communication Corporation (USA), The Bank of Credit and Commerce International (BCCI) Bank (UK), Robert Maxwell Pension Funds (UK), the Harshad Mehta Share Scam (India) and Satyam Computer Services Limited (India). In addition, after the 2007-2010 global financial crisis and the cases of Lehman Brothers, Morgan Stanley, and Goldman Sachs, it is evident that a lack of stringent corporate governance (CG) norms had implications on economies as strong as the USA and the UK. Therefore, this researcher has reviewed scams and corporate frauds reported and published nationally and internationally and understood that non-adherence to CG practices can lead to the downfall of corporate giants across the globe.

More importantly, developing countries like India and China, which are favorable investment destinations, should safeguard themselves from any kind of corporate scams or frauds. They should foster an environment wherein foreign institutional investors feel safe and secure to invest. Hence, well-governed organizations can build credibility among the global investors and attract them to contribute into the economy.
## 1.4 Failure of CG - An International Perspective

### TABLE 1.1 FAILURES OF CG-BIGGEST GLOBAL SCAMS

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Money involved</th>
<th>Allegations</th>
<th>Post-scam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Credit and Commerce International</td>
<td>1991</td>
<td>More than $20 billion</td>
<td>Faking liabilities and assets, out-of-proportion loans to single customers using a network of dummy companies, money laundering, bribery, facilitation of tax evasion</td>
<td>Liquidated and paid $10 million in fines and forfeited all of its $ 550 million American assets, which were used for the repayment of losses and restitution to Bank of Credit and Commerce International (BCCI) victims</td>
</tr>
<tr>
<td>WorldCom</td>
<td>2002</td>
<td>$7.2 billion</td>
<td>Overstated cash flow, gave founder Bernard Ebbers $440 million in off-the-books loans</td>
<td>Sought bankruptcy protection in 2002, changed the company name to MCI and paid $750 million to be paid to the wronged investors. In 2003, MCI got a contract to build a cellular telephone network in Iraq</td>
</tr>
<tr>
<td>Xerox</td>
<td>2000</td>
<td>$1.5 billion</td>
<td>Falsifying financial results for 5 years, boosting income</td>
<td>Xerox agreed to pay $10 million and to restate its financials dating back to 1957</td>
</tr>
<tr>
<td>Mirant</td>
<td>2002</td>
<td>$1.1 billion</td>
<td>Overstated various assets and liabilities</td>
<td>Sought bankruptcy protection in 2003 and emerged from bankruptcy in 2006</td>
</tr>
<tr>
<td>Enron</td>
<td>2001</td>
<td>$1 billion</td>
<td>Boosted profits and hid debts, manipulated Texas power market, California energy market, bribed governments to win contracts</td>
<td>The new name of Enron Creditors Recovery Corporation was adopted. Its goal is to pay off the old Enron’s remaining creditors and wind up Enron’s affairs</td>
</tr>
<tr>
<td>AOL Time Warner</td>
<td>2002</td>
<td>$49 million</td>
<td>Fraudulent round-trip transactions to show a boosted online advertising revenue</td>
<td>The company, now known as Time Warner Inc agreed to pay $300 million in civil penalties to be distributed to the harmed investors</td>
</tr>
<tr>
<td>Arthur Anderson</td>
<td>2001</td>
<td>NA</td>
<td>Shredding documents related to audit client Enron</td>
<td>Convicted of obstruction of justice, lost clients (from a high of 1,13,000 employees the number is now down to around 200)</td>
</tr>
</tbody>
</table>

The researcher has reviewed a few more international fraud cases, which have been reported and published.

American International Group (AIG) USA:
AIG is the largest business insurance company (AIG) in the world. It hence shocked all when it acknowledged its improper accounting to achieve reinsurance transaction and improve reserves. In fact, it went on to confess several other examples of unethical accounting. It also announced the delay of its annual 10-K filing, which probably inflated its net worth by up to $1.7 billion.

Fannie Mae and Freddie Mac (USA): The FBI, investigating the September 2008 Wall Street crisis, charged Fannie Mae and Freddie Mac for fraud. Millions of investors lost their portfolios and retirement accounts after this fraud, which, experts feel was preventable. A fine of $400 million was slapped on Fannie Mae in the year 2006 for accounting malpractices that gave an enhanced but false version of their financial strength.

Daewoo Group (South Korea): Daewoo, the second largest conglomerate in South Korea spread in 100 countries, went bankrupt, owing about 80 billion won ($84.3 million). In 2005, chairman of the Daewoo Group, Kim Woo Choong faced charges of a 41 trillion won ($43.4 billion) accounting fraud, which was augmented with the charge of illegally borrowing 9.8 trillion won ($10.3 billion) and smuggling $3.2 billion.

1.5 Importance of CG in the Indian Context

India is an emerging market, which has gained significant momentum due to rising per-capita income, favorable demographics, and a large population. Indian markets have shown considerable strength, having withstood financial crises with very little long-term damage and continuing to show impressive growth trajectories. Hundekar and Makandar (2013) revealed that because of globalization initiatives taken by the Indian government and with the growing purchasing power of the middle income group in India, the economic growth is prophesized to exceed 8% annually. They also stated that the Indian middle class is set to treble over the next 15 years. In addition, domestic demand is expected to grow at a compound rate of 9.2% per year during the year 2010 to 2030. This puts India in a favorable position to attract an increasing proportion of Foreign Direct Investments (FDI).
Pandey & Bhat (2007) stated that investors primarily consider two variables before making investment decisions - the rate of return on invested capital and the risk associated with the investment. Good CG practices reduce this risk by ensuring transparency, accountability, and credibility in the marketplace. In his research paper, the author has mentioned that well-governed firms have easier access to funds as their investors possess, "the information and confidence necessary for them to lend funds directly" to such firms. Moreover, well-governed firms will likely obtain capital more cheaply than firms that have poor CG practices because the ‘risk premium’ needed to win over investors will be lesser for investing in well-governed firms.” Therefore, CG not only safeguards the management but the interests of the stakeholders as well and fosters the economic progress of a country in the roaring economies of the world.

Tricker (2015) has discussed the recent high-profile CG failure scams like the stock market scam, the UTI scam, the Ketan Parikh scam, and the Satyam scam, which were severely criticized by the shareholders. According to the 2011 Corruption Perception Index, India is ranked 95th out of 183 countries, and has scored less than in previous years a mere -3.1 on a scale of 0 to 10 zero stood for the most corrupt. Several scams, the detailed of which were revealed in the last few years, seriously compromised the volume of foreign investment in India. These frauds remain as one of the most challenging issues for organizations worldwide, irrespective of the organization’s size, sector or country. Organizations have an enormous responsibility towards their stakeholders and other beneficiaries as they have to ensure the financial security of their funds, which are invested in corporate entities. A fraud not only destroys the shareholders’ value but threatens enterprises’ development, endangers employment opportunities and undermines good CG.

Therefore, it is imperative for developing countries like India to highlight good corporate governance disclosure practices and caution the organizations that non-adherence can possibly lead to major corporate frauds.
1.6 Failures of CG in the Indian Context

In the course of this analysis, the researcher has studied few of the biggest institutional frauds reported and published in India, during the recent times, which have resulted from a deliberate disregard and non-compliance with the Indian CG regime. Mentioned below is a list of financial scams, which have affected a large number of investors and shaken the very base of our financial system. These frauds stress on the fact that we need to revisit and review our CG policies and disclosure practices.

In his review Khan (2013) in his book mentioned a few corporate frauds. **Insurance scam** was the one which happened immediately after independence the government nationalized the insurance sector and LIC was formed to safeguard the common man's interests. The securities scam of **Harshad Mehta (1991)** revealed the loopholes in the Bombay Stock Exchange transaction system, after which SEBI introduced rules to cover the same (Barua and Verma 1992).

**CRB scam (1992-93)** also occurred in a similar time frame. CR Bhansali, the perpetrator of the scam, floated more than 100 companies and then disappeared after taking public funds. The small investors faced big losses and also lost trust in the market after investing in UTI’S infamous US-64 mutual fund scheme. Ketan Parikh securities scam was to the tune of INR 1,500 crores.

The DSQ software scam, perpetrated by Mr. Dinesh Dalmia, MD of DSQ Software Ltd., involved as much as INR 600 crores. 1.3 million shares were issued in 2001, and preferentially allotted to four companies. NSDL, a stock depository, dematerialized and helped in delivering the shares that were not listed on any of the stock exchanges.

IPO scam between the year 2004-05, corporate heavyweights such as Karvy and Indiabulls were found to be involved in the infamous IPO scam. The scam was perpetrated simply through buying IPO shares in the names of many fake accounts, leading to oversubscription as high as 40 times.

One of the major challenges faced by the banking industry is the fraud committed by the relationship managers who gain the trust of the customers. Time and again, cases
have been reported where the relationship manager of leading foreign and Indian banks had forged signatures of clients and used their funds for own benefit.

**The researcher has reviewed few financial sector and banking frauds reported and published in India-**

**Citi Bank, Dec 2010-** A Citi Bank employee defrauded clients of INR 350 crore. Shiv Raj Puri, an RM at the bank's DLF-II branch in Gurgaon, duped high net worth individual clients in the name of investing in various schemes and pocketed a whopping amount of INR 350 crores.

**LIC Housing Finance, September 2010 –** This scam involved several state run financial institutions. Losses pegged at INR 1,000 crores by the Confederation of British Industry (CBI).

**Global Trust Bank, 2008-** was a scam amounting to INR 47 crore, involving top executive of the bank.

**HSBC BPO staffer, 2006** arrested for siphoning INR 4.2 lakhs from UK customers’ accounts.

**Security scam** – Standard Chartered Bank to the tune of INR 1332 crore.

**Canara bank** fraud up to the tune of INR 538 crore, due to irregularities in the loan procedures by the bank employees.

**Murthy (2010)** studied the biggest corporate fraud in Indian history. Satyam Computer Services Ltd. witnessed a scam amounting to USD 1.04 billion (Murthy, 2010), in the year 2008. The case of CG failure at Satyam Computer Services Limited (SCSL) is evaluated because the company witnessed the execution of fraudulent practices, by Satyam’s then chairman- Ramalinga Raju, for many years without getting noticed by national or international regulatory bodies. Before the scandal came to the forefront, Satyam had showcased the adoption of best practices related to governance and Ramalinga Raju was awarded the “Entrepreneur of the Year” in 2007 from Ernst and Young. In April 2008, Satyam got an award for excellence in “CG and Accounting Practices.” In September 2008, SCSL had also received the “Golden Peacock” award from the World Council based in London for best practices in CG,
which was withdrawn after Ramalinga Raju resigned and accepted the falsification of accounts (Winkler, 2010).

Above-mentioned studies reveal that if Indian organizations want to grow rapidly world-wide, they need to re-examine their CG practices and take necessary actions after understanding the gap. Regulatory authorities and the government on their part should take necessary actions, introduce good governance practices and provide strict vigilance to ascertain whether the organizations are adhering to CG norms in the real sense.

1.7 Definition of CG

The scope of CG is much wider and covers various dimensions; it also has varied meanings. The researcher has identified a few definitions recommended by various committees and research scholars from Monks & Minow, (2011) in their book on Corporate Governance:

**Report of Securities Exchange Board of India (SEBI) committee (India) on CG**

defines CG as "the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company.”

**Organization for Economic Co-operation and Development (OECD) April 1999. OECD definition is consistent with the one presented by Cadbury [1992, page 15].**

“CG is the system by which business corporations are directed and controlled. The CG structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the
company objectives are set, and the means of attaining those objectives and monitoring performance.”

It is “the system by which companies are directed and controlled” as per Sir Adrian Cadbury, The Committee on the Financial Aspects of Corporate Governance.

“Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society” (Sir Adrian Cadbury in ‘Global Corporate Governance Forum’, World Bank, 2000)

There are various views on corporate governance. It can also be related to different cultural contexts, intellectual backgrounds and interests of scholars.

“The phrase corporate governance is often applied narrowly to questions about the structure and functioning of boards of directors,” as per Blair (1995:3). Lex Donaldson (1990:376) defined corporate governance as 'the structure whereby managers at the organizational apex are controlled through the board of directors, its associated structures, executive incentives, and other schemes of monitoring and bonding.' Strictly Boardroom (Hilmer 1993) reflects a similar view. Tricker (1994) defines CG with a focus on the boardroom, though extending the scope to 'owners and others interested in the affairs of the company, including creditors, debt financiers, analysts, auditors and corporate regulators.'

“Corporate governance is the relationship among various participants [chief executive officer, management, shareholders, employees] in determining the direction and performance of corporations” as per Monks and Minow, Corporate Governance (from the 1995 version).

“Corporate governance deals with the way suppliers of finance assure themselves of getting a return on their investment.” – Shleifer and Vishny, 1997.
“Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs, and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return.” (Mathiesen, 2002)

“Corporate governance system is the combination of mechanisms, which ensure that the management (the agent) runs the firm for the benefit of one or several stakeholders (principals). Such stakeholders may cover shareholders, creditors, suppliers, clients, employees and other parties with whom the firm conducts its business.” — Goergen and Renneboog, 2006

From the research point of view, CG can be defined as: “Good corporate governance is when the organizations follow certain governance practices in their organizations, i.e., whistle blowing policy, forensic accounting, incorporating risk management system, right mix in board composition (executive directors, independent directors, nominee directors and non-executive) and code of conduct for board of directors, the role of independent auditors, data management and analytics and internal and external control system. If organizations follow these practices, then certainly they can not only improve their performance but also build credibility among the stakeholders and benefit the economy at large.

Despite these good CG practices, both developed and developing economies face hurdles as they lack transparency and a better understanding of the CG practices. Some of the best practices of CG may be irrelevant to the organizational frauds. When the theoretical concepts are implemented, they end up having low face validity. Corporate frauds in the organization can be attributed to factors other than CG failure. Different organizations require different practices in CG.
1.8 Quotes on CG

Following is a an extract of President Pratibha Patil’s Republic Day eve address:

“CG in public and private sector companies has become a matter of serious public concern, as recent developments have shaken up public confidence. Also, he stressed that CG by Companies must improve. The recent slump in stock market in India shows our dependence on foreign institutional investors. The credibility of accounts of Indian companies is under the scrutiny of international investors. In the recent World Economic Forum at Davos, problems arising from global financial meltdown were discussed. It became obvious that the solution lies in improved CG, by each business entity. Enhanced transparency and accountability are regarded as the key ingredients of effective CG. All investors, employees, regulatory authorities and other stakeholders need reassurance that “internal controls, checks, and balances are strong enough to prevent a Satyam-like fraud. It is critical for every Company to improve.”

Bill Gates, Microsoft Chairman5 “Strong CG at Microsoft starts with a Board of Directors that is independent, engaged, committed, and effective. Our Board establishes, maintains, and monitors standards and policies for ethics, business practices, and compliance that span the company. Working with management, we set strategic business objectives, ensure that Microsoft has leadership that is dynamic and responsive, track performance, and institute strong financial controls. We believe in strengthening investor confidence and creating long-term shareholder value so we can continue to deliver technology innovations that provide opportunities for customers and for Microsoft6.”

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Narayana Murthy⁷ “CG, to me, is about maximizing shareholder value legally, ethically and on a sustainable basis, while ensuring fairness to every stakeholder—the company’s customers, employees, investors, vendor-partners, the government of the land and the community. Thus, CG is a reflection of a company’s culture, policies, how it deals with its stakeholders, and its commitment to values.”

Duvvuri Subbarao, Reserve bank of India (RBI) Governor in his speech⁸ “CG sets up the ‘rules of the game’ to deal with issues arising from the separation of ownership and management so that the interests of all stakeholders are protected.”

Kofi Annan: World Economic Forum (2002)⁹ “There are many positive ways for business to make a difference in the lives of the poor—not through philanthropy but through initiatives that, over time, will help build new markets.”

1.9 Financial Sector and CG
The financial sector is a converging point for all businesses; it comprises of commercial banks, non-banking financial companies, insurance companies, cooperatives, pension funds, mutual funds and other financial entities. In India, the financial sector is predominated by the banking sector, out of which commercial banks account for the majority of the total assets of the financial sector; they are followed by the insurance sector. Regional banks, rural banks and co-operative banks that target under-serviced rural and urban populations are also included as bank intermediaries. Several non-banking finance companies (NBFC) are functional in segments such as micro-finance, leasing, factoring, infrastructure finance; some also accept deposits.

1.10 Need of CG in the Financial Sector
The financial sector can rightly be called the backbone of a country’s economy, and banking constitutes a major portion of the financial sector. The Indian banking sector is constantly growing, projected to create up to two million new jobs.

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⁸ https://m.rbi.org.in/Scripts/AnnualReportPublications.aspx?id=1050
Satyanarayana et al. (2012) reported that total banking assets in India were US$ 1.8 trillion in FY13 and could cross US$ 28.5 trillion in FY25. India's banking sector is projected to become the fifth largest in the world by 2020 and the third largest by 2025.

In its report (2013), the Indian Brand Equity Foundation presented that as on July 2013 the Indian banking industry is estimated to be worth INR 77 trillion (US$ 1.30 trillion), abiding by well-accepted international standards. Stringent norms, prudent practices and a conventional framework adopted by the regulator have helped the banks to overcome the global financial crises. There are 87 scheduled commercial banks in India treasuring INR71.6 trillion (US$ 1.21 trillion) as on 31 May 2013. 26 public sector banks, 20 private banks, and 41 foreign banks make up the total. Remarkably, the public sector banks control 70 percent of the banking sector. 41 banks among the total have been listed with a total market capitalization of INR 9.35 trillion (US$ 158.16 billion).

**Definition of Banks:** According to the Reserve Bank of India (RBI), Banks are the agents of the payment system where they facilitate payments domestically and internationally, through various instruments such as bank accounts, fund transfers, and credit cards. Banks are the financial intermediaries who provide loans to the needy on the one hand and, on the other, intelligently invest the funds of the others. Banks have a system in place through which they confirm whom to lend. In addition, they serve to ensure the correct execution of monetary policy. Banks fundamentally differ from other businesses, accepting funds through public deposits instead of raising them from shareholders. This indicates that banks have a larger responsibility on their shoulders and must safeguard public deposits in a more determined manner. Hence, a lack of CG in banks can destabilize the financial system and pose systemic risks to the real economy.

The growth of the economy depends significantly on the strength of the banking industry, which is why the RBI is keeping no stones unturned to strengthen its governance framework. New Basel III norms are being adopted by the central bank of India. As per IBEF, the Ministry of Finance is believed to have infused INR 12, 517 crores (US$ 2.28 billion) into 13 public sector banks before March 2013, and
INR 14, 000 crores (US$ 2.55 billion) in 2013-14 ensuring they are provided with sufficient funds and always meet the Basel III regulations as they come into force in a phased manner.

The RBI is also in the process of issuing new banking licenses to various corporate houses; recently, around 26 institutions have applied for banking licenses in India. This will not only increase competition but also increase the necessity for this sector to be more regulated and transparent, requiring a high standard of governance.

From the banking industry perspective, CG refers to conducting the affairs of a banking sector so that all shareholders, including bank employees, bank customers, regulatory authorities, and the society at large enjoy healthy benefits. A number of market and non-market risks come in the way as banks go about their functions, exposing them to the possibility of financial loss. Hence, according to the Basel committee report (1999), “banks have to display exemplary CG practices in their financial performance, transparency in the balance sheets and compliance with other norms laid down by section 49 of CG rules.” Significantly, accounting ratios, relating to operating profit, return on assets, business per employee, non-performing assets (NPAs), and maturity profile of loans, advances, investments, borrowings, and deposits must be revealed in their annual report. The Basel III framework, of which the main thrust has been enhancing the banking sector’s safety and stability, emphasizes the need to improve the quality and quantity of capital components, leverage ratio, liquidity standards, and enhanced disclosures.

The Organization for Economic Co-operation and Development (OECD) Principles of CG emphasize that good CG is important in building market confidence and encouraging more stable long-term international investment flows. Empirical evidence has shown that firms that practice good CG enjoy lower costs of capital (Chen et al., 2001) and higher share values (Gill, 2002; McKinsey, 2001; and Dallas, 2002). Efficient regulation is extremely important to ensure sound CG of banks in general.

Public trust is the keyword on which the banking system operates. An analysis of previous bank failures reveals that the society’s loss of confidence in banks can be contagious and easily lead to systemic banking crisis situations.
Recent Steps Taken by Banks in India for CG

- Induction of non-executive members on the boards
- Constitution of various Committees like Management committee, Investor’s Grievances committee, ALM committee, etc.
- Role of Independent auditor
- Gradual implementation of prudential norms as prescribed by the RBI,
- Introduction of Citizens Charter in banks
- Implementation of “Know Your Customer” concept
- The Board of Directors and top management of the Bank are chiefly responsible for good CG.

Taking into account the importance of the banking sector in the economy, the researcher has considered the banking sector for the present research work.

1.11 Banking Sector and CG

The banking system of a country is a strategic building block for the economy. The challenge and complexity of implementing CG can be understood well only if we can appreciate the size of the banking system. Thus, the banking sector, which acts as a skeleton for the economy, must be fully compliant with the recommended guidelines and transparent in their financial disclosures.

The banking sector in India is growing at a rapid pace with an inclusive strategy of covering the entire nation and providing value to all its stakeholders. The term stakeholder is defined as any entity with a declared or conceivable interest or stake in the business, i.e., shareholders, bank and lenders, the board of directors, auditors, employees, suppliers, customers, regulators, government and society at large. The value creation for these stakeholders will only happen when the systems are transparent and robust by following good CG practices and embedding them in their operational processes.

CG is a mission intended to create strong fundamentals for the banks. With changing dimensions of CG practices, it is imperative that banks acquire more dynamicity and power, creating a fulsome future vision. This is with especial stress on the recent financial upheavals that shook the world, uprooting many financial bigwigs. Several
commercial and investment banks, and financial institutions round the world had to file bankruptcy petitions.

1.12 Definition of Fraud

To understand corporate frauds the researcher has stated definitions following an in-depth literature review. Section 17 of the Indian Contract Act, 1872 defines “Fraud” as “any of the following acts committed by a party to a contract, or with his connivance, or by his agents, with intent to deceive another party thereto his agent, or to induce him to enter into a contract.”

1.13 Definition of Bank Frauds

Indian economy is among the fastest growing world economies, which is providing a plethora of opportunities for the global giants to expand their businesses here. However, these opportunities also carry with them risks and challenges in terms of frauds, bribery, and corruption.

Along with the boost in global business, India has also witnessed a marked increase in the number of frauds and scams that have surfaced both in public and private sector organizations. The scale and size of corporate frauds in India have shot up in the last few years with the majority of the cases of fraud involving siphoning off of funds by promoters /top management and defrauding the lenders/investors, especially in the banking sector.

Banking Frauds constitute a considerable percentage of white collar offences being probed by the police. These frauds run into millions of rupees. It is, therefore, at times, referred to as a white collar crime, at times. Remarkably, bank fraud in India is not a federal crime as in other countries. Importantly, all the major operational areas in banking provide a good opportunity for fraudsters. In fact, several new frauds have been reported under deposit, loan and inter-branch accounting transactions, including remittances.

With more educational qualifications, banking is becoming impersonal, and the increase in the banking sector has given rise to this white collar crime. In a survey
covering events till 1997, bank frauds in nationalized banks were to the tune of INR 497.60 crore. The amount of frauds reported in nationalized banks 2009-10, 2010-11, 2011-12 & 2012-13 financial year (till Dec 2012) were 161268.15 crores, 256900.48 crores, 402532.04 crores and 657391.4 crores respectively.\[^{10}\]

This banking fraud can be classified as:

- Fraud by insiders
- Fraud by others

Frauds by Insiders:-

- Misappropriation of income or assets
- Occupational Fraud/employee fraud
  - Bribery
  - Corruption
- Wire fraud: Once wire transfers are made, they are difficult to reverse – this opens a fresh vista of opportunities for fraudsters involved in international, inter bank fund transfer systems.
- Forged or fraudulent documents: Herein the customers have provided forged or fraudulent documents.
- Demand draft fraud: Demand Draft (DD) fraud is usually perpetrated by one or more dishonest bank employees that are the “Bunko Banker”. They remove few DD leaves or DD books from the stock and write them out like a regular DD.
- Rogue traders: A rogue trader is a highly placed insider nominally authorized to use large funds of the bank to invest on its behalf. In case an investment runs into a loss, the rogue trader may invest further in riskier schemes, hoping to earn one big profit and make good the loss.
- Fraudulent loans- In this case, the borrower is a business entity controlled by a dishonest bank officer or an accomplice; after the loan materializes, the borrower declares bankruptcy or disappears, leaving the bank high and dry.

The entire loan can even be a smokescreen designed to hide a large theft from the bank.

**Frauds by others**

**Forgery and altered cheques**

This type of fraud involves altering the amount on the face of a cheque for nefarious purposes

- **Stolen cheques**
  
  This type of fraud is initiated by the theft of a few cheques. Then accounts are opened using fake identities, and the suitably altered stolen cheques are deposited, followed by convenient withdrawal of the amount. In a similar way, stolen blank cheque books are misused by fraudsters.

- **Accounting fraud**
  
  Overstating sales and income, dishonest accounting and inflating the worth of the company’s assets to hide that the company is actually functioning in loss constitute Accounting Fraud. E.g., Satyam.

- **Credit card fraud**
  
  Credit cards lend themselves to several opportunities for fraud. Made of three PVC sheets, of which the central sheet is known as the core stock, credit cards carry substantial data. Credit card frauds can be carried out in several ways. They are: genuine cards are manipulated, altered, counterfeit cards are created, fraudulent telemarketing is done with credit cards and genuine cards are obtained on fake applications in the names/addresses of other persons and misused.

**Frauds committed by auditors**

- **Power of Attorney fraud**- A “Power of Attorney” (“POA”) is a legal document through which the donor grants the power to his attorney to ‘step into the donor’s shoes’ and conduct legal and financial matters on the donor’s behalf. The extent of this authority can be curtailed by the terms of the document. The POA will terminate under the following circumstances: the donor revokes the authority; donor’s demise; or, the donor’s loss of decision-making ability (the last point protects donors who have lost the mental ability to ensure that the POA is not
being misused – however, it cannot be brought into force if the POA is ‘enduring’\textsuperscript{11}.

The misuse of POA starts when donor interests are neglected for the personal gain or benefit of the person possessing the POA. The decision taken by the POA fails to be in the donor’s best interest.

- **Phishing**: In this type of fraud, sensitive data such as account numbers, login Independent Directors (IDs), passwords, and other verifiable information are extracted from gullible individuals either through fraudulent telephone calls or emails. These data are then misused for dishonest purposes, including identity theft. Phishing is most often perpetrated through mass emails and spoofed websites.

The research aims at providing suggestions related to good CG practices, which can avoid different types of financial frauds back with relevant data and analysis.

### 1.14 Definition of Corporate Frauds

Corporate fraud is defined as “one that occurs within an organization or by its owners or managers and involves deliberate dishonesty to deceive the public, investors or lending companies, usually resulting in a financial gain to the individuals or organization.” Most of the corporate frauds fall under the categories of asset misappropriation, money laundering, accounting frauds, frauds committed by senior management, bribery and corruption and regulatory non-compliance. It is practices such as these that are denting the image of our financial system. It is remarkable to note that the total number of frauds reported by the commercial banks as on March 31, 2013, was INR 1.69 lacs involving an amount to the tune of INR 29910 crores. Reportedly, the public sector banks cumulatively lost INR 22743 crores because of frauds from 2010-2013.

The organizations, therefore, must be attentive to these challenges and adopt proactive anti-fraud measures rather than being reactive. Otherwise, organizations and entire societies have to bear the risk of fraud and its consequences, which will become

\textsuperscript{11} http://bcceas.ca/information/elder-abuse-and-neglect/abuse-of-a-power-of-attorney/
more devastating. For the present study, this researcher has identified seven unethical practices causing the majority of corporate frauds:

1. Asset misappropriation
2. Money laundering
3. Accounting frauds
4. Frauds committed by senior management
5. Bribery and corruption and
6. Regulatory non-compliance
7. Insider trading

1. **Asset Misappropriation/Insider Fraud:** Asset misappropriation is defined as a fraud which occurs when the senior management itself begins to embezzle the company funds. Asset misappropriation fraud is perpetrated by third parties or employees stealing from an organization. Usually perpetrators of such frauds are individuals such as company directors, employees, or others managing the company’s assets. Asset misappropriation fraud can occur in the following manner:

- Embezzlement, with manipulated accounts and fake invoices
- Data theft or intellectual property theft.
- Fake expense claims.
- Payroll fraud, sending out payments to fake employees

The researcher has considered asset misappropriation as one of the unethical practices causing corporate frauds in the organizations.

2. **Money Laundering:** As per section 37 of the Prevention of Money Laundering Act, 2002 (PMLA), the offence of Money Laundering is defined as under: "Whosoever directly or indirectly, attempts to indulge, or knowingly assists, or knowingly is party, or is actually involved in any process, or activity connected, with the proceeds of crime, including its concealment, possession, acquisition or use; and projecting or claiming it as untainted property shall be guilty of offence of Money Laundering."

The definition of "money laundering" in India is comprehensive enough to cover
most of the instances of converting black money into white, as the same will depend upon the willingness of Enforcement authorities for strong implementation, which is subject to judicial scrutiny. Some of the examples of money laundering in the corporate world include Insider trading, Shell Companies, Corporate Mismanagement, Foreign Investments, and bribery.

Under Section 12 of Prevention of Money Laundering Act, 2002 (PMLA), all banking companies, financial institutions and intermediaries are required to maintain a record of all transactions, including information related to transactions for a period of 5 years, so that reconstructing individual transactions are possible, and furnish to the concerned authorities under PMLA, all information related to such transactions, whether attempted or executed. The nature and value of such transactions, verification of the identity of its clients and the beneficial owner, if any, are vital. Also, maintenance of a record of clients’ and owners’ proof-of-identity documents, account files and business correspondence relating to its clients are also mandatory.

The researcher has considered money laundering as one of the unethical practices causing corporate frauds in the organizations.

3. **Accounting Frauds** are defined as falsified account statements, overstated assets, fake sale entries, tax-related manipulations and fake profit/loss data collectively.

Accounting fraud can also be defined by accounting professionals as the “deliberate and improper manipulation of the recording of data in financial statements in order to achieve an operating profit of the company and appear better than it actually is.” Accounting frauds are particularly predominant in the financial sector and detecting them is a perennial challenge.

The researcher has considered accounting frauds as one of the unethical practices causing corporate frauds in the organizations.

4. **Frauds committed by senior management** As per KPMG’s 2007 report, Chief Executive Officers (CEOs) are the fastest growing group of fraudsters today. Indeed, of those committing fraud, 26% are chief executives, according to the
2011 analysis, compared with 11% in 2007. The Association of Certified Fraud Examiners, in its report, has mentioned how management can prevent frauds in the workplace.

The researcher has considered frauds committed by senior management as one of the unethical practices causing corporate frauds in the organizations.

5. **Bribery and Corruption:** Bribery and corruption is defined as “a specific offence, which concerns the practice of offering something, usually money, to gain an illicit advantage and corruption is an abuse of a position of trust in order to gain an undue advantage.”

Ernest & Young (2014) in their recent report, “Bribery and Corruption ground reality in India,” revealed that bribery and corruption are significant challenges in Indian scenario. In the year 2012, India ranked 94th in a group of 176 and 19th among 28 in the Transparency International Corruption Perceptions and Bribe Payers Indices, respectively, which clearly showcases how serious the issue is. Corruption causes transaction costs and uncertainty in the economy to rise, an observation supported by empirical studies, and lowers efficiency. It also prevents healthy market forces to come into play and distorts economic and social development.

The researcher has considered bribery and corruption as one of the unethical practices causing corporate frauds in the organizations.

6. **Regulatory non-compliance:** Serious discussions have taken place world over to ensure strict regulatory compliance in the organizations if they have to combat frauds within. Such regulatory compliances include Antitrust laws, Foreign corrupt practices act (FCPA), UK Anti-Bribery, amendments to European accounting legislative, regulatory regimes under the treaties of the United Nations and the Organization for economic cooperation and development (OECD), the Dodd-Frank Act, the Foreign Account Tax Compliance Act (FATCA) and Anti Money laundering (AML), among others, have resulted in increased compliance responsibilities.
According to KPMG Indian Fraud Survey (2012), 59% respondents were of the opinion that regulatory non-compliance is one of the reasons of corporate frauds in India. Hermes and Holzhacker (2016) in their research study, “Corporate Governance and Corruption: A comparative study of Southeast Asia revealed that strong regulatory framework can stimulate the markets and non-adherence to the same can result in fraudulent activities.

The researcher has considered regulatory non-compliance as one of the unethical practices causing corporate frauds in the organizations.

7. **Insider trading**: The definition of Insider trading as per Regulation 2(ha) of the SEBI (Prohibition of Insider Trading) Regulations, 1992, which is applicable to the securities of listed companies, defines price sensitive information, as "any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of the securities of the company".

Parekh (2003) discussed the serious Indian and international frauds, outlining how CG guidelines have acquired importance and legal backing. The author also suggested curbing insider trading through a strong procedural framework. As per Agrawal and Cooper (2014) studied insider trading in more than 500 firms involved in accounting scandals with earnings-decreasing restatements, comparing them with a control sample of firms that did not restate. Sale of stock along with misstatement of earnings is actually committing a double crime: that of manipulating earnings and insider trading.

The researcher has considered insider trading as one of the unethical practices causing corporate frauds in the organizations.

1.15 **Research Problem**

The problem statement for the study may be given as, “Corporate Governance as an Effective Tool in Combating Corporate Frauds-A Study of the Indian Financial Sector.” The purpose of the study was to find out CG parameters that can prove to be an effective tool in combating corporate frauds. Also, a second objective was to identify whether there was a relation between CG disclosure practices stated in the
annual reports and the number of cases and amount of frauds reported in the banking sector.

The researcher has selected eight CG parameters:
1. Code of Conduct for the Board of Directors
2. A sound risk management framework
3. Independent auditor’s role
4. Whistle blowing policy
5. Forensic accounting
6. Data management and analysis
7. Role of Top management
8. Internal and external control

1. **Code of Conduct for the Board of Directors:** Code of Conduct for the Board of Directors (“Code”) is the business practice and principles of behavior that support this commitment. The Board of Directors (“the Board”) is responsible for setting the standards of conduct contained in the Code and for updating these standards so that they are in line with legal and regulatory developments. The Code is a basic framework, providing guidance in ethical issues and upholding the virtues of honesty and accountability. Every Director must read and understand this Code and its application to the performance of his or her duties, functions and responsibilities.

The code of conduct comes under the mandatory recommendations of Clause 49 of the listing agreement by SEBI, which states that “the board shall lay down a code of conduct for all board members and senior management of the company. The code of conduct shall be posted on the website of the company. All board members and senior management personnel shall affirm compliance with the code on an annual basis. The annual report of the company shall contain a declaration to this effect signed by the CEO.”

The researcher has selected code of conduct for BOD as one of the CG parameters.
2. **Sound Risk Management Framework:** The Basel Committee on Banking Supervision (BCBS) paper on compliance function in Banks (April 2005) defines Compliance risk as "the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities" (together, "compliance laws, rules and standards").

A growing number of high profile operational losses worldwide have led banks and supervisors to view operational risk management as a significant component of the risk management activity. Operational risk has been defined by the BCBS as the “risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.” This definition includes legal risk but excludes strategic and reputational risk. This definition is based on the underlying causes of operational risk. It attempts to pinpoint why a loss occurred and at the broadest level, investigates four causes: people, processes, systems and external factors. As per the Risk Management Guidelines of RBI (October 1999), every banking organization is required to set up a Risk Management Committee. Understanding the importance of risk management, the researcher has selected it as one of the parameters of CG.

3. **Independent Auditor’s Role:** The importance of CG in ensuring sound financial reporting and in deterring frauds has gained growing recognition in the recent years, and the presence of an efficient and independent role of an independent auditor is considered a central cog in this wheel. In India, the constitution of an Audit Committee has generally been prescribed as a part of the CG mechanism to be followed by the corporations listed under Clause 49 of the Listing Agreement, and by “public” corporations under the Companies Act, 1956. An Audit Committee was emphasized as vital for banks in April 1994, with the RBI advising the banks to form an Audit Committee of their Board. It was advised that the audit committee chairperson must mandatorily be an independent director.

The Audit Committee’s role includes audit plan review, confirming compliance with RBI observations of annual financial inspection, confirming violations of
discretionary powers, and review of KYC/AML compliance. The Audit Committee may also investigate cases of defaults in payment to depositors, creditors and share/debenture holders. The review of compliance with regulatory requirement of Regulators in Host Countries with respect to overseas branches and review of fraud cases also lie within the ambit of the Audit Committee.

Additional functions of the Audit Committee, as recommended by the SEBI, may be complied with by the listed banks as per the listing agreement. For better CG, the following implementation guidelines are recommended (a) To serve the interests of shareholders better, the private and public sector banks that have issued shares to the public may form committees like listed companies under the chairmanship of a non-executive director to ensure rectification of shareholders' complaints. (b) Also, listed banks may provide un-audited financial results twice a year, summarizing the major events.

Understanding the critical aspect of the role of an independent auditor, the researcher has selected it as one of the parameters of CG.

4. **Whistle blowing policy:** Whistle blowers have gathered attention in the wake of worldwide media exposure of recent accounting scandals and also when the Times magazine awarded Cynthia Cooper of WorldCom, Sherron Watkins of Enron, and Coleen Rowley of the FBI as its “Persons of the Year” in 2002. The role of whistle blowers in safeguarding CG is very vital. Whenever any kind of fraud occurs in an organization which is detrimental to its public policy or stakeholders’ interest, the role of the whistle blower acquires significance. Thereby, a whistle blower resolves problems that may arise out of such mismanagement and safeguards stakeholders’ interest.

Whistle blowing is “an act of disclosure of information by people within or outside an organization”, which otherwise is not accessible to the public; these are generally activities of organizations that are against the public interest. It also acts as a channel of unveiling information about illegal or unethical activities, thus, helping to take a positive step towards the reduction of corruption.
As per Clause 49 of the listing agreement, “the company may establish a mechanism for employees to report to the management concerns about unethical behavior, actual or suspected fraud or violation of the company’s code of conduct or ethics policy.” Importantly, this safeguards the whistle blower, even yielding him/her access directly to the chairman of the audit committee. Once the framework is set, the organization members must be made adequately aware of the same. Understanding the emphasis laid on the whistle blowing policy, the researcher has selected it as one of the parameters of CG.

5. Forensic Accounting: Accounting has always been an important aspect of every organization and all the investment decisions of stakeholders and investors are taken after examining the accounting records of the company. The financial crisis of 2007-2008 was an alarm bell for all the organizations across the world, accentuating the need to review CG practices to curb frauds, and adopt stringent practices for accounting. Surprisingly, in most of the corporate frauds and failures, accounting fraud is the major culprit. Failures of giants like Enron, WorldCom, Tyco and Satyam in the past few years have showed that there are loopholes in the present accounting practices, which need to be checked and the frauds need to be detected. For this, forensic accounting is a possible answer.

Forensic Accounting is a combination of two words viz., “Forensic” and “Accounting.” Forensic may be defined as “relating to, used in, or appropriate for a court of law or for public discussion or argumentation” and “Accounting” means “a system that provides quantitative information about finances.” According to the Association of Certified Fraud Examiners, Vancouver, “Forensic Accounting is the use of professional accounting skills in matters involving potential or actual civil or criminal litigation, including, but not limited to, general acceptable accounting and audit principles; the determination profit & loss of lost, income, assets, damages, evaluation of internal controls, frauds and any other matter involving accounting expertise in the legal system.” KPMG (1999) defines forensic accounting as “assistance in disputes which are likely to involve litigation, arbitration, expert determination, mediation or an inquiry by an appropriate regulatory authority, and investigation of suspected frauds, irregularity or
impropriety which could potentially lead to civil, criminal or disciplinary proceedings; while focusing primarily on accounting issues.”

Forensic accounting involves applying specialized knowledge and specific skills to unearth the evidence of economic transactions. This necessarily involves expert-level reporting, where the accountability of the fraud is established. The report can even be produced as evidence in the court of law or in the administrative proceeding.

Akintoye (2008) defined forensic accounting as “accounting that is suitable for legal review, offering the highest level of assurance, and including the new generally accepted connotation of having been arrived at in a scientific fashion and providing the needed findings in settling disputes.” Crumbley (2009) defined forensic accounting as the “action of identifying, recording, settling, extracting, sorting, reporting and verifying past financial data or other accounting activities for settling current or prospective legal disputes or using such past financial data for projecting future financial data to settle legal disputes.” Bhasin (2013) in his paper, “CG and Forensic Accountants’ Role: Global Regulatory Action Scenario” states: “Forensic Accountants can make significant contributions in the area of CG, fraud prevention, and investigation, creating a positive work environment, establishing effective lines of communication and vigilant oversight.”

Clearly, the above definitions elucidate that forensic accounting consists of analyzing financial documents to search for illegal activity within an organization, specifically white collar crimes. Therefore, the main aim of forensic accounting is to help the organizations and others to conduct an investigation into frauds and scandals and assist in litigation, thus, bringing to book the wrongdoers.

After reviewing similar research work, the researcher has selected forensic accounting as one of the important parameters of CG.

6. **Data Management and Analysis:** The concept of data management can be described as “the development, execution and supervision of plans, policies, programs and practices that control, protect, deliver and enhance the value of data and information assets.” It means compiling and organizing a large amount of information so that one can access it and read it quickly and easily.
The BCBS, in its CG guidelines for banks, states that banks must possess accurate internal and external data for risk identification and assessment, strategic decision-making and determining capital and liquidity adequacy. The board and senior management should ensure the quality, completeness, and accuracy of the data. It has become the most important aspect of any organization as successful business starts with an effective database. Understanding the significance of data management system in today’s parlance, the researcher has considered it as one of the CG parameters.

7. **Role of Top Management:** The BCBS defines Top management/Senior management as “a core group of individuals who are responsible and accountable to the board for effectively overseeing the day-to-day management of the bank.” The board is responsible for assessing the top management performance, supervising it, and most importantly, collating all the necessary information from the senior management. In this regard, senior management must ensure the board is regularly and adequately informed of crucial aspects including changes in business strategy, risk strategy/risk appetite, bank performance and condition, risk limit exceedance, non-compliance, failures of internal control and legal issues. Understanding the relevance role of top management, this researcher has included it as one of the CG parameters.

8. **Internal and External Control Systems:** BCBS in its CG guidelines for banks states that “Internal controls are designed, among other things, to ensure that each key risk has a policy, process or other measures as well as a control to ensure that such policy, process or other measure is being applied and works as intended. As such, internal controls help ensure process integrity, compliance, and effectiveness. Internal controls provide reasonable assurance that financial and management information is reliable, timely and complete and that the bank is in compliance with its various policies and applicable laws and regulations.”

As per RBI guidelines, banks may, with the approval of their respective boards, frame an internal policy for managing the risk of fraud and investigating the same. Also, frauds of INR 100.00 lakh and above to must be reported to a special committee of the board.
For external controlling of the frauds, there is a Fraud Monitoring Cell, Department of Banking Supervision, which will publish a directory of officers of all banks/Financial Institutions (FI) responsible for reporting of frauds.

The researcher has considered internal and external control system as one of the parameters for the study.

1.16 Significance of the Study

CG draws guideline and helps in aligning the goals of the organization. The recent financial crises across the globe and the Satyam fiasco was a clear cut indicator that it is high time we need to evaluate and re-examine our CG practices so that company’s growth, employees’ future and shareholder’s interest can be safeguarded.

The research output of this study will focus and provide information about:

1. How will the regulatory and legal framework help in the implementation of CG practices
2. How CG practices can be an effective tool in combating corporate frauds
3. Possible suggestions for making robust processes around CG of an organization and how the same can be beneficial for all the stakeholders.

1.17 Objectives of the Study

1. To study CG disclosure practices adopted by the banking institutions.
2. To examine the extent to which the banking institutions have followed the overall CG disclosures, which includes mandatory, voluntary and exemplary, as stated in Clause 49 of SEBI and RBI.
3. To study whether there is a relationship between CG disclosure index percentage and the number of fraud cases and amount of frauds reported in the banking institutions.
4. To study the CG parameters required for the banking institution for enabling good governance.
5. To study the factors that influence investment decision of the stakeholders.
6. To study the unethical practices that can be a threat to the organization.
7. To study whether CG parameters are an effective tool in combating corporate frauds.
1.18 Hypotheses

The study has drawn broad hypotheses to examine the relationship of CG disclosure practices and their relationship with corporate frauds in the banking institutions. Public and private sector banks operating and listed on the Bombay Stock Exchange were considered for the study. The researcher has framed the following Null hypotheses (Ho) and Alternate hypotheses (H1):

TABLE 1.2 SUMMARY OF THE HYPOTHESES

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>To study the CG parameters important for the banking institution for enabling good governance.</td>
<td>H1a0: There is no significant difference in the importance respondents attached to the CG parameters important for enabling good governance. H1b1: There is a significant difference in the importance respondents attached to the CG parameters important for enabling good governance.</td>
</tr>
<tr>
<td>To study the factors that influences investment decision of the stakeholders</td>
<td>H2a0: There is no significant difference in the importance respondents attached to the factors that influences investment decision of the stakeholders. H2b1: There is a significant difference in the importance respondents attached to the factors that influences investment decision of the stakeholders.</td>
</tr>
<tr>
<td>To study unethical practices, this can be a threat to the organizations.</td>
<td>H3a0: There is no significant difference in the weightage respondents attached to the unethical practices, which can be a threat to the organization. H3b1: There is a significant difference in the weightage respondents attached to the various unethical practices, which can be a threat to the organization.</td>
</tr>
<tr>
<td>To study CG parameters that can help the banking institutions in combating corporate frauds.</td>
<td>H4a0: There is no significant difference in the weightage respondents attached to CG parameters that can help organizations in combating frauds. H4b1: There is a significant difference in the weightage respondents attached to CG parameters that can help organizations in combating frauds.</td>
</tr>
</tbody>
</table>
1.19 Research Limitation

This is a sample-based study and the inferences derived from the analysis and interpretations are expected to be representative of the total population. However, the study is subject to the following limitations:

The area of the study is limited to the city of Mumbai, State of Maharashtra, India. Hence, the sample may have limitations pertaining to the area, tradition, custom and opinion of the people in that place.

1. The study was primarily limited to public and private sector banks in India as the banking sector accounts for major assets in the financial sector.
2. The respondents are stakeholders of the banking sector, especially public and private sector banks; hence, the data may represent only the above companies.
3. The study focuses on CG parameter and its relationship with corporate frauds. There could be other parameters\(^{12}\) i.e. succession planning, independent women director, tenure of independent director, performance evaluation of board of director, training of independent directors and related party transactions that can cause corporate frauds in the banking sector.

1.20 Conclusion

Corporate governance is still at an evolving stage in different countries, and India being at a crucial stage of development, requires an organized and well-implemented CG in all sectors of business activities. In the wake of the recent corporate turbulence, it raises the question among stakeholders as to whether good corporate governance practices can help the organization combat corporate frauds. Therefore, a diligent approach has been adopted to understand corporate governance practices, which can be of paramount importance in controlling frauds resulting in value to stakeholders in particular and society in general.

1.21 Layout of the Thesis

The thesis is presented in seven chapters:

**Chapter One** Introduction provides an overview of need and importance of CG in the financial sector, failures of CG in the international and Indian perspective, defining CG, and outlining its parameters and their role in combating corporate frauds. This chapter also emphasizes the research plan, starting with the objectives of the study, identification of variables, the proposed framework of the study, hypotheses and limitation of the research work.

**Chapter Two** presents a review of the literature on CG, which has been divided into two parts – research work conducted in India and studies conducted outside India. Review of literature brings to light the parameters of good CG and discusses reports on corporate frauds reported in India. Past studies have also revealed factors impacting CG disclosure practices and whether it is an effective tool in combating corporate frauds. Based on the review of existing literature conducted in Chapter Two, the researcher has identified research gaps, based on which a theoretical framework of research has been designed and discussed in Chapter Three.

**Chapter Three** In this chapter, the researcher has formulated a theoretical framework for the research work, elaborating on the variables considered, i.e., dependent and independent variables. Also, the parameters considered in CG and corporate frauds have been specified. The model used to test the hypotheses, and the definitions of the variables have been stated in chapter three.

**Chapter Four** summarizes the research methodology adopted for the research work, data collection methods, sampling design and techniques, questionnaire design and statistical tools selected for the analysis and to test the hypotheses. Statistical tools selected to test the hypotheses are defined and explained in chapter four.

**Chapter Five** describes the data analysis, which is divided into two parts (a) Analysis of report on CG of public and private sector banks from their annual reports for the selected financial years. The objective of the annual report analysis is to understand CG disclosure practices in public and private sector banks. The second part of data
analysis shows the analysis of the survey conducted through a questionnaire to understand the opinion of stakeholders regarding CG and corporate frauds. The hypotheses developed in chapter one were tested in chapter five.

**Chapter Six** presents the hypotheses testing and model development. Corporate governance as an effective tool in combating corporate frauds with reference to the financial sector is constructed in this chapter.

**Chapter Seven** presents the interpretation, findings and conclusion of data analysis conducted in chapter five. This chapter highlights the key findings of the study, theoretical and managerial implications of the study, key limitations and directions for future research. The appendix has been placed at the end.